Kelda Finance (No.1) Limited

Annual report and financial statements

Registered number 08066326

For the year ended 31 March 2019

Contents

Strategic Report

Introduction

The principal activities of the group are the supply of clean water and the treatment and disposal of waste water. Yorkshire Water Services Limited (Yorkshire Water or YW), the group's regulated utility subsidiary in UK, is responsible for both water and waste water services. In addition to the main trading entity, the group also comprises six financing companies, the activities of which are described in more detail on page 33.

Our Business

Yorkshire Water is the principal UK subsidiary of the group, providing water and waste water services to more than five million people and 140,000 businesses. Every day, Yorkshire Water supplies around 1.3 billion litres of drinking water to homes and businesses in Yorkshire. Through the efficient operation of its extensive wastewater network and treatment facilities, it also ensures that the region's domestic and industrial waste is returned safely to the environment.

Yorkshire Water's vision is 'Taking responsibility for the water environment for good'. There are seven Customer Outcomes that shape everything the business does:

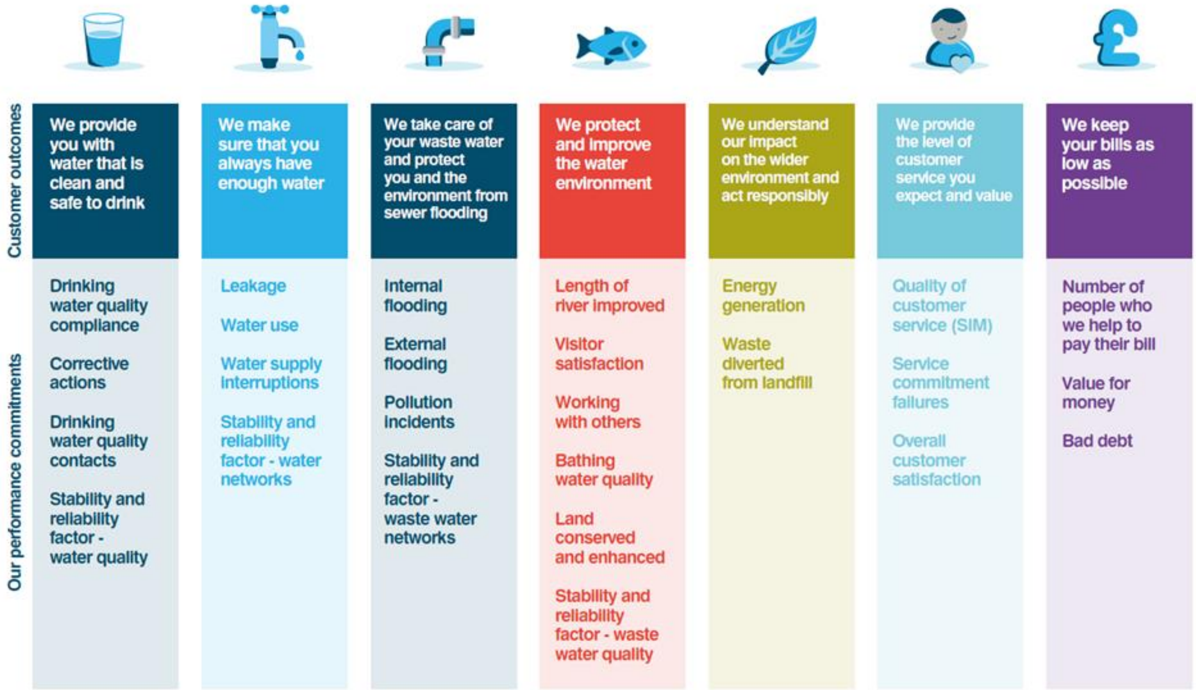
- We provide you with the level of customer service you expect and value
- We provide you with water that is clean and safe to drink
- We make sure that you always have enough water
- We take care of your waste water and protect you and the environment from sewer flooding
- We protect and improve the water environment
- We understand our impact on the wider environment and act responsibly
- We keep your bills as low as possible

Our business strategy for Yorkshire Water

As a water and waste water company we provide some of society's most essential services, and we are a custodian of the natural environment and critical infrastructure. Our vision is "taking responsibility for the water environment for good", which captures our ambition to go beyond regulatory requirements and our commitment to long-term sustainability. The essence of our vision is doing what is right for customers, colleagues, partners, the environment and investors, both in the short and long term. This holistic and integrated approach is critical to the resilience of our essential water and waste water services, and of our business.

Central to our strategy is the delivery of our customers' priorities, defined in seven Customer Outcomes and 26 Performance Commitments. These are summarised in the diagram below. These were shaped and agreed through engagement with over 30,000 of our customers, and with our stakeholders and regulators.

Our Performance Commitments and Customer Outcomes



The Performance Commitments set the levels of service we are working to achieve up to 2020, across a range of activities which customers and regulators confirm are a priority, such as further reducing pollution incidents and leakage.

The regulatory regime in which we operate includes financial and reputational outcome delivery incentives (ODIs) if we under or over perform against some of the Performance Commitments. Where financial incentives have been agreed, they become applicable only when we reach defined levels of service either side of the Performance Commitment. You can find more detail about the Customer Outcomes, Performance Commitments and ODIs in our Annual Performance Report (APR) at: www.yorkshirewater.com/ourperformance.

Our new long-term strategy

We published a new long-term strategy called #notjustwater in August 2018. This can be found at: www.yorkshirewater.com/biggoals.

Our strategy recognises how we need to meet the challenges that are facing Yorkshire in the future; how a growing population means that we need to change to ensure enough water is available and that we continue to take away and recycle waste water. The strategy identifies five ‘Big Goals’ that will shape everything we do in the future.

1. **Customers:** We will develop the deepest possible understanding of our customers’ needs and wants, and ensure that we develop a service tailored and personalised to meet those needs.
2. **Water supply:** We will always provide our customers with enough safe water, we will not waste water and always protect the environment.
3. **Environment:** We will remove surface water from our sewers and recycle all waste water, protecting the environment from sewer flooding and pollution.
4. **Transparency:** We will be a global benchmark for openness and transparency.
5. **Bills:** We will use innovation to improve service, eradicate waste and reduce costs so no one need worry about paying our bill. We will not waste money.

To develop our new strategy, we looked closely at the future economic, social and environmental issues Yorkshire faces as a region. We spoke at length to our varied and diverse customers and stakeholders. A suite of extensive and innovative assessments has helped us develop the strategy and Big Goals to ensure it meets the wants and needs of the society we serve, including:

- Consultation and engagement with our customers and stakeholders - talking to over 30,000 people to help ensure our plans are aligned with their expectations. We asked where we can do better to improve what we do, how we do it, and how we can work better with others to make sure that the people of Yorkshire get the best all round value for what they spend on water.
- Analysis of how communities in Yorkshire are made up now and how that will change in the future. We set out to better understand what people value in their lives and the role water plays in that, observing how customers with different lifestyles rely on water in different ways.
- Applying our cutting-edge Six Capitals approach to gain a rich understanding of our impact as a company on the economy, people and environment of Yorkshire.
- Careful consideration of the latest data on wider trends such as the impact of the growing population and changes to the climate.

Our long-term strategy sets the context for our new business plan for the period from 2020 to 2025, known as Asset Management Period 7 (AMP7). The detailed plan sets out how we will maintain and improve water and waste water services in Yorkshire to ensure resilience and sustainability. We submitted our new business plan in September 2018 and our regulator, Ofwat, is now undertaking a review and challenge process which will conclude by the end of 2019. You can find our plan at:

www.yorkshirewater.com/ourbusinessplan.

Asset Management Periods (AMPs)
The water industry operates in five-year cycles known as Asset Management Periods or AMPs. This report relates to the penultimate year of AMP6, which runs from 1 April 2015 to 31 March 2020.

Some water companies are in the process of agreeing their business plans for AMP7 with the economic regulator for the water sector, Ofwat. AMP7 will start on 1 April 2020 and run until 31 March 2025.

Resilience and sustainability are imperatives within our new strategy

Central to our new long-term strategy is the need for change. As a company whose core business fundamentally relies on financial, natural and social resources, we know that there are major challenges to the resilience of our essential water and waste water services, such as climate change and population growth. We also know how important it is that we maintain the trust of our customers and stakeholders by acting with the highest standards of integrity in everything we do.

To help us make sure that our decision-making deals directly with these matters, we are using the concept of the Six Capitals, shown below. We show how they are the critical inputs to our business model over the page.

FINANCIAL CAPITAL
Our financial health and efficiency.

HUMAN CAPITAL
Our workforce's capabilities and wellbeing.

MANUFACTURED CAPITAL
Our pipes, treatment works, offices and IT.

INTELLECTUAL CAPITAL
Our knowledge and processes.

NATURAL CAPITAL
The materials and services we rely on from the environment, especially water.

SOCIAL CAPITAL
Our relationships and customers' trust in us.

We are working to apply the capitals to enhance our resilience and sustainability by informing our risk management, decision making and investment choices. Going further than the traditional focus on financial capital by considering the positive and negative impacts and dependencies across all the capitals, helps an organisation improve its understanding of how to make decisions. These decisions have a balanced impact and which take account of risk and value, so that more long-term sustainable approaches can be targeted.

We have instigated a range of projects to examine our impacts and dependencies across the capitals, assessing a range of economic, environmental and social attributes associated with our activities, and considering both our negative and positive impacts to society. We were delighted to be recognised for our leading approach at the international Finance for the Future Awards in 2018, winning the category for embedding an integrated approach.

In January 2019, we published our Sustainable Finance Framework. This has been made possible in part because of our maturity in applying the Six Capitals approach to be able to monitor the impact of our investments. Subsequently, £450m of debt financing has been raised in accordance with this framework, including a £350 million, 22 year bond issued in April 2019.

Find out more about our approach, including a range of case studies and our first Total Impact and Value Assessment, on our website at www.yorkshirewater.com/capitals. You can also find more details about our Sustainable Finance Framework at www.keldagroup.com/investors/sustainable-finance.

The immediate impact of our new strategy

We announced in December 2017 that we had committed significant investment to several priority areas of service, with the aim of being in the upper quartile of water companies in the next AMP. These new commitments were made following extensive consultation with our customers and have been strongly supported by stakeholders, such as the Yorkshire Forum for Water Customers. We are working to:

- reduce leakage by 40% by 2025;
- cut category three pollution incidents by 40%;
- reduce sewer flooding by 70% by 2021; and
- minimise the average interruption time per property to two minutes by 2021.

We have also committed to a policy of being 'open by default' by 2020. We have already shared a wide range of new data, working closely with the Open Data Institute, and supporting a number of innovation events and 'hackathons', where people collaborate to solve problems around data. The objective of this approach is to enable fresh insight that unlocks innovative new approaches that we can use to improve customer service, environmental performance and value for money.

In April 2019, the water industry collectively published five stretching Public Interest Commitments on leakage, affordability, carbon, plastics and social mobility. The commitments all relate to areas of strategic importance to the resilience and sustainability of water and waste water services. We actively helped the industry to shape these commitments and they complement our plans for AMP7 and beyond. We have already started to escalate our focus on these areas, for example by introducing new governance arrangements to oversee the necessary response action. We are delighted to have delivered further reduction in our carbon emissions and outperformed our leakage target despite the operational challenges from the extreme weather experienced in 2018/19. The Public Interest Commitments can be found at:

https://www.water.org.uk/wp-content/uploads/2019/04/Public-Interest-Commitment.pdf. We provide further details on our progress to these bold new commitments in the upcoming sections of this Strategic Report.

Communicating progress and plans towards our strategy through this report

This Strategic Report summarises our performance in 2018/19. We explain our latest performance, including where we have been successful in meeting or exceeding our Performance Commitments, and why some commitments have not yet been delivered. We also set out the future challenges we face and the plans we are putting in place to mitigate strategic threats and to gain from opportunities.

Over the following pages you will find an explanation of our business model and a business performance summary, followed by a section on each of our seven Customer Outcomes where we share headline performance on everything material to our business and services. Each outcome section starts with a table summarising the latest status on our Performance Commitments and other important activities.

Comparing our performance to others

We and the other water companies in England and Wales provide data to a central hub so you can compare how we are performing against each other and how the water industry compares to other sectors. Visit www.discoverwater.co.uk to find latest information on water quality, environmental performance, customer service and water bills.

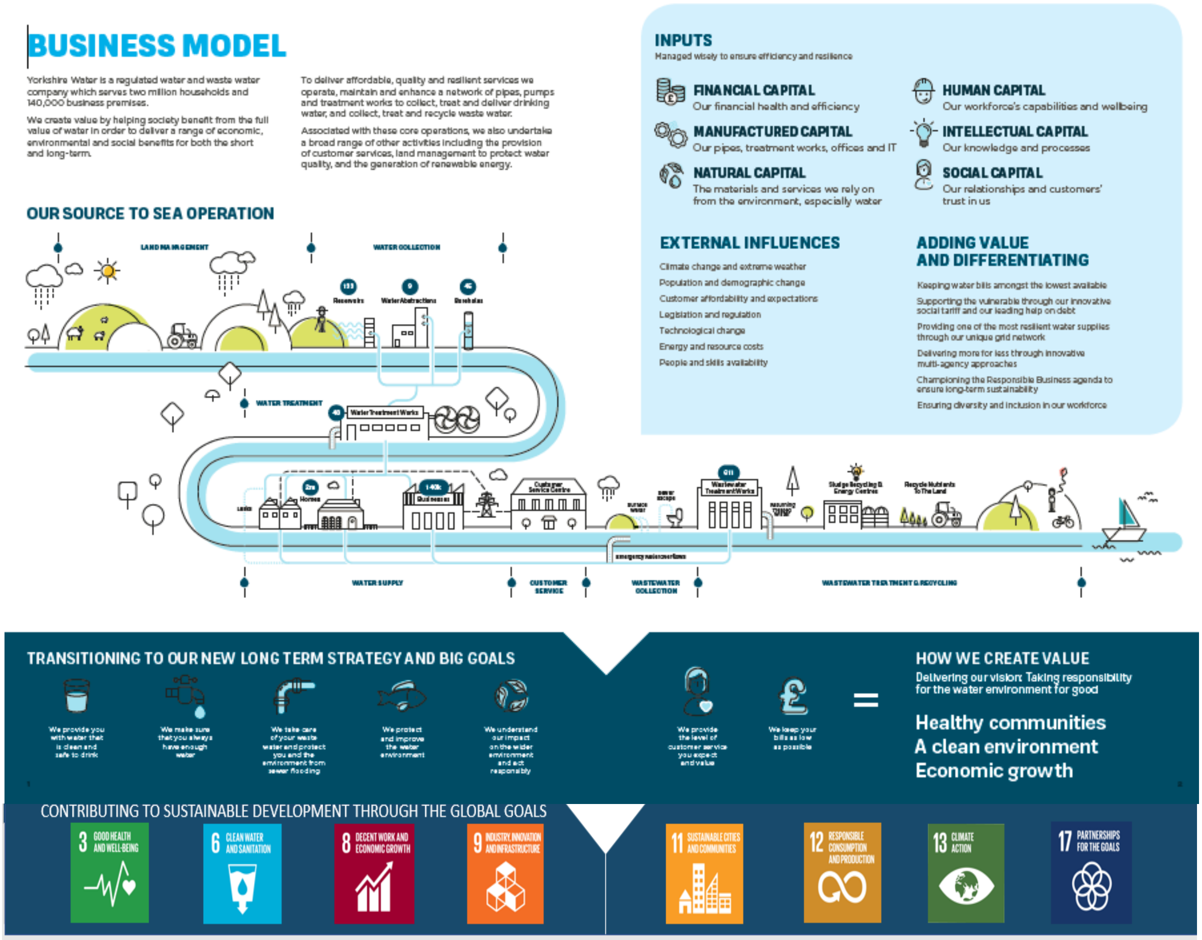
Business Model

Yorkshire Water is a regulated water and waste water company which serves two million households and 140,000 business premises.

We create value by helping society benefit from the full value of water in order to deliver a range of economic, environmental and social benefits for both the short and long-term.

To deliver affordable, quality and resilient services we operate, maintain and enhance a network of pipes, pumps and treatment works to collect, treat and deliver drinking water, and collect, treat and recycle waste water.

Associated with these core operations, we also undertake a broad range of other activities including the provision of customer services, land management to protect water quality and the generation of renewable energy.



The following sections cover the seven Customer Outcomes used to measure financial and non-financial performance criteria. These outcomes have been identified as of highest importance to our customers. Each Customer Outcome has been considered separately, alongside other important measures.

Customer outcome: We provide the level of customer service you expect and value

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Service Incentive Mechanism (SIM) Score out of 100 for the quality of our customer service	84.3	Year-on-year improvement	84.0	Year-on-year improvement**
Overall customer satisfaction Percentage of "satisfied" customers according to an independent survey by the Consumer Council for Water (CCW)	94% water 89% wastewater	Average 2015-20 performance to be better than average in 2010-15	95% water 88% waste water	Average 2015-20 performance to be better than average in 2010-15
Service commitment failures Number of times we did not meet minimum standards	12,203	Average 2015-20 performance to be less than average last 3 years of 2010-15	14,221	Average 2015-20 performance to be less than average last 3 years of 2010-15

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.
**Ofwat is revising the customer satisfaction metric over 2019/20 in preparation for new AMP7 metrics.

In order to meet this Outcome, we believe we need to deliver leading customer service, engage with customers and stakeholders and secure customer and stakeholder trust.

Delivering leading customer service

The Service Incentive Mechanism (SIM) is the water industry regulatory measure of customer service, reporting a score out of a maximum 100 points through an independent assessment of each UK water company. Our overall score this year was 84.0 points, compared to 84.3 points last year. This overall SIM score is made up of two elements:

- 75% of the score is determined through a qualitative independent survey of customer perceptions of our service, for billing, waste and clean water services. From a maximum score of five points we scored 4.38 in 2018/19, which is lower than 2017/18. The billing score of 4.64 was one of the best in the industry, but our water and waste scores were below average.
- 25% of the score is determined through our performance on a range of quantitative customer service indicators, for example the number of repeat customer contacts. We scored 20.67 out of a maximum 25 points, improved from 20.14 in 2017/18.

Our overall SIM score means we have not achieved our Performance Commitment which is to improve year on year. Our billing related services have continued to be strong and match our ambition. However, the cold weather at the start of the year followed by a prolonged dry period, caused disruption to our water network and therefore dissatisfaction to our customers. This also links to the increase in service commitment failures.

Our Customer Promise is to be easy to deal with, helpful and friendly, and get it right first time. This has resulted in a reduction in initial and repeat contacts. Where complaints occurred, we resolved them quickly and overall escalated written complaints reduced by 29%.

In 2019/20 the SIM surveys will no longer take place in the current format as Ofwat will replace the measure with Customer Measure of Experience (C-MeX) from 2020. We welcome this change as the new measure will capture customer satisfaction of the services we provide, including where there has been no direct contact. It also incentivises companies to compare performance outside the industry.

We strive to be a leader in service across all sectors, as measured by the UK Customer Satisfaction Index. In the UK overall scores have reduced each of the last three years. In January 2019, our score also reduced to 76, compared to our score in January 2018 of 77 out of 100. This is better than the average utility score of 74 but not as high as the all-sector score of 78.
Our customer service is also measured by the Consumer Council for Water (CCW) through an independent survey of customer satisfaction. The latest results for Yorkshire Water show high levels of overall customer satisfaction: 95% for water services and 88% for waste water services. We are pleased to be on track to achieve our Performance Commitment to improve average satisfaction scores this AMP compared to the last one.
This latest position on the Performance Commitments reflects that we are managing complaints well once they occur but need to respond to issues resulting from operational issues faster to restore service. A Waste Water Customer Field Transformation Programme in 2019 will help deliver first time resolution and faster response times for our customers. As a result we expect to see increased satisfaction scores and a reduced number of complaints. This will be measured through the C-Mex shadow survey which is different to SIM. We will therefore monitor and respond to any differences in the metrics.

Engaging with customers and stakeholders

Our ongoing conversations with customers and stakeholders continue to help shape the way we deliver our services to customers, and to guide the development of our future plans. Our Insight Team manages customer research, working closely with Loop and Service Delivery, and our Internal Communications Teams manage colleague engagement. We also have a dedicated Political and Stakeholder Engagement Team within our Communications directorate that ensures that stakeholders are a key focus of the business.

The team employs a range of engagement approaches to involve stakeholders in our work. Our ongoing stakeholder contact programme means we have a good understanding of our key stakeholders in the region. We have good relationships with all our local authorities, Members of Parliament, regulators and the environmental non-governmental organisation community.

This year we continued to build on the engagement we began in 2017/18 by returning to our key stakeholders to discuss how their feedback helped to shape both our new Long-Term Strategy, and our PR19 business plan. We continue to evolve our approach to expand the quality and quantity of engagement and participation, embracing a range of best practice and innovative approaches to secure valuable customer and stakeholder insight. For example, in 2018/19 we have:

- Co-created our long-term strategy and five-year business plan with our customers and stakeholders.
- Explored customers' different lifestyles to better understand their individual service needs.
- Continued to work with the Yorkshire Forum for Water Customers who ensure our customers have a fair say in the development of our plans.
- Developed our stakeholder contact programme to include a wider range of stakeholders. This allows us to get a greater range of views on how we should deliver services in future.
- Helped build the knowledge and expertise amongst stakeholders around the challenges facing the industry by showcasing our operational activities and capital investment through a series of site visits.
- Held a series of multi-stakeholder round table discussions on key topics including flooding, safeguarding and planning of new developments to help shape both our plans and public policy.
- Established partnerships with key stakeholders, including local authorities, the Environment Agency (EA), non-governmental organisations and others to examine the potential additional benefits that can be gained from working together, for example through the innovative Living with Water Partnership in Hull and Haltemprice.

Securing customer and stakeholder trust

As we state at the outset of this report, we always want to provide you with information you can trust. When we don't get it right, we risk losing trust and confidence.

We published our assurance plan to explain the process we have in place to give confidence that the information we publish is accurate and accessible. We also continue to work closely with the Yorkshire Forum for Water Customers to ensure our performance reporting meets customers' and stakeholders' needs. You can find our assurance plan on our website at this link: https://www.yorkshirewater.com/about-us/what-we-do/our-reports/our-assurance-plan.

We have made considerable improvements in the transparency of our financial and other reporting. We have worked hard to ensure all our published information in 2018/19 has been easy to access, and easy to read and understand. These improvements were confirmed by Ofwat in its Company Monitoring Framework (CMF) report issued on 31 January 2019. This report confirmed that we have retained our "targeted" categorisation. Ofwat concluded that Yorkshire Water had met its expectations in six assessment areas and exceeded expectations in three areas (outcomes, risk and compliance and assurance plan).

Ofwat had a minor concern in one area (financial monitoring framework) and serious concerns in one area: charges engagement, where new connections charging arrangements were re-published with amended charges, without this change having been pro-actively communicated with stakeholders or Ofwat. This issue was addressed prior to publication of the CMF assessment and rigorous steps put in place to prevent it re-occurring. Ofwat considered that, looking at our performance in the round, the improvements were not sufficient to promote us to self-assured.

In previous years we have used the Business in the Community (BITC) Corporate Responsibility Index to benchmark our performance as a responsible business. BITC has changed their approach, and in 2018/19 we chose to be a 'forerunner' of the new BITC Responsible Business Tracker which has updated the benchmark process in line with latest best practice and societal priorities. In this pilot cycle there were no scores but we received highly positive feedback about our performance from BITC. In the future, the Tracker will allow us to benchmark our performance as a responsible business.

We work to build stakeholder trust through everything we do, including all the activity we describe throughout this section. As a regional monopoly provider of essential services, we recognise the imperative for high levels of trust in our approach. During 2018/19 the industry has been challenged by government, opposition and regulators to improve transparency and do more to build trust amongst customers. To respond to these challenges, we have already taken steps to improve transparency including:

- Simplifying our financial arrangements, including closing our Cayman Islands subsidiaries in August 2018.
- Continuing with our open data approach, for example by being one of the first to publish an ethnic pay gap report. We have committed to being open by default by 2020 and have already published large amounts of new data in partnership with the Open Data Institute and Data Mill North.
- Complying with the GRI Core Standard to ensure we disclose on a range of issues important to all our stakeholders.
- Continuing to embed our new social value committee with the duty to govern the company's continued focus on best serving Yorkshire.

These measures will help us to take further steps to build trust and confidence in the way we operate.

Customer Outcome: We provide you with water that is clean and safe to drink

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Drinking water quality compliance# Percentage compliance with legal standards	99.953%	100%	99.962%	100%
Stability and reliability – water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Drinking water quality contacts Number of customer contacts regarding water quality	8,100	≤ 6,108	7,964	≤ 6,108
Drinking water corrective actions# Number of emergency interventions to protect customers	4	≤ 6	5	≤ 6

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.
# Calendar year measure.

In order to meet this Outcome, we believe we need to maintain excellent drinking water quality and protect raw water quality.

Maintaining excellent drinking water quality

Customers in Yorkshire rightly expect that the drinking water we supply is of the highest possible quality. Because of this we have set ourselves the aspiration of achieving 100% compliance with the Drinking Water Inspectorate's (DWI) requirements. Achieving this target is a long-term goal and means we will need to make improvements from source to tap. This is measured by calendar year, and in 2018 we managed to achieve an improvement in the overall compliance figure from 99.953% to 99.962%. We did however miss the Performance Commitment target. No 'Water and Sewerage Company' in England and Wales has ever achieved this level of performance, and delivery of 100% compliance is not wholly under the control of the Company.

The year on year improvement was delivered due to fewer samples failing the required standards. In particular, there were fewer samples failing the standard for the key health parameter of lead. There was also a reduction in the number of tastes or odours found in samples collected from properties right across Yorkshire.

The weather conditions in 2018 caused periods of very high demand from customers and these demands resulted in high flows within our water mains. An outcome of the high flows is increased disturbance of the sediments within water mains, and so there was an increase in the number of samples failing the standard for iron.

Achieving further improved performance against this target is a long-term goal and means we will need to make interventions from source to tap. In 2019 we will continue to work with stakeholders to improvement management of the rural environment and reduce the levels of pesticides reaching our raw water sources. We will optimise our dosing of odour suppressing chemicals to prevent the occurrence of unusual tastes and odours. We will learn the lessons of last year to ensure we operate our network to balance both supply to customers and minimising disturbance of sediments.

Importantly we will also continue our policy of dosing phosphate based chemicals to prevent deterioration of customer lead pipework, and will replace our own lead pipework in line with our previous commitments.

Another result of the unusual weather conditions was that we utilised our grid network to transfer water across the region in order to ensure continuous supply to all customers. Sometimes this led to a change in the source of water for some supply areas, which we know some customers can identify as a change in taste. However, these changes were very carefully managed, and customers were kept fully informed. Overall, in a challenging year there were 7,964 contacts from customers regarding water quality. This was a marginal decrease from 8,100 contacts in 2017/18 and represented our best ever performance in this measure. Due to the hot summer months of 2018, a decision was made to temporarily suspend our flushing programme. We believe our performance would have been better than the 2018/19 out turn. For 2019/20, we estimate that we will flush approximately 900 distribution management areas (a third of the network) and we are also expanding our trunk main conditioning programme. We estimate that these initiatives will enable us to out-turn at approximately 7,500 contacts.

We continue to invest in maintaining and improving our water treatment and water supply network across Yorkshire. The Stability and Reliability Factor is made up of a basket of measures monitoring water quality of our assets, including the presence of coliform bacteria at our water treatment works and service reservoirs and the measure of particles in the water supplied from our sites. We met each of these targets individually, and our overall performance in 2018/19 continues to be at our target level of “stable”.

During the year we commissioned an upgrade to our water treatment facility that supplies Scarborough, further protecting customers from the potential for pesticides in the raw water supplying this area. In nearby Whitby we also commissioned a new storage tank for treated water, safeguarding the continuous supply of clean drinking water.

We investigate every instance of suspected deterioration of water quality and we share the outcome of our investigations with the DWI and health protection stakeholders. In total there were 31 events investigated in 2018 (2017: 26 events). Many events were associated with third party activity or were the result of private fittings within individual customer properties. However, the high flows in water mains also resulted in an increase in the number of occasions that supply to customers became discoloured. Actions were put in place to prevent recurrence or learn the lessons from each event, but there were five events for which further corrective actions were required after discussion with regulators.

The result for drinking water event corrective actions met the Performance Commitment for no more than six incidents.

Protecting raw water quality

The quality of the water we take from the environment has been deteriorating in some areas over recent decades because of pollution, unsustainable land management practices and climate change. The more polluted raw water is, the more treatment is needed to make it fit for drinking. We respond with a twin-track approach; enhancing water treatment capabilities to ensure high quality drinking water at the customer’s tap and addressing problems at source through our catchment management programme.

Peat moorlands are especially important to us because they are the source for a large proportion of drinking water in Yorkshire. The water sourced from degraded peatland requires extra treatment to remove contaminants picked up in the run-off from eroded soils. We work in partnership to maintain and restore parts of Yorkshire’s peatland by re-introducing native plants, managing invasive species and blocking man-made drains to slow the water flow and restore the water table. Through our collaborative working, we are increasingly active and effective in peatland management and are growing the amount of land being restored. However, there is also much more to do, by us and others, to fully protect raw water quality.

We also collaborate with the Environment Agency (EA), Natural England and the National Farmers’ Union to protect water catchments by developing safeguard zone action plans. We have an agreed programme of work to help address sources of water pollution between 2015 and 2020. This includes working with the agriculture sector, for example, to encourage farmers to follow best practice when using metaldehyde slug control pellets. We are also investigating nitrate and other pollutants that present risks to several of our groundwater sources.

We have started to build on our links with the food and drink supply chain in Yorkshire. Much of our lowland catchments are dominated by agriculture which can have a negative impact on water quality and soils. By developing the collaborative approach we have taken in the uplands, we have launched a unique farmer-to-farmer mentoring trial project which seeks to improve soil health, farm profitability (through reduced pesticide and nutrient use), and improved water quality.

Customer Outcome: We make sure that you always have enough water

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – water networks Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Water supply interruptions Average interruption per property served, in minutes and seconds	6 minutes, 58 seconds	≤ 12 minutes	10 minutes, 28 seconds	≤ 12 minutes
Leakage Total leakage in million litres per day, Ml/d	300.3Ml/d	≤ 292.1Ml/d	289.8 Ml/d	287.1 Ml/d
Water use Average consumption per head of population, in litres per head per day, l/h/d	135.9l/h/d	≤ 139.3l/h/d	133.5 l/h/d	138.3 l/h/d

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, we need to secure water supplies, reduce the company's own water use, reduce leakage, work with customers to save water, and reform abstraction licences and encourage water trading.

Securing water supplies

We treat and supply around 1.3 billion litres of drinking water each day, delivered by operating and maintaining our water treatment works and distribution network. Following our investments, Yorkshire has had no service restrictions, such as hosepipe bans, since 1995, and this is despite some very challenging weather including that in 2018 which we describe below. In the year we have maintained "stable" status in the Performance Commitment for the stability and reliability of our water networks. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

The risk of water shortages or supply interruption is a constant priority for us because of the consequences to our customers and operations. Our operational and investment programme includes a range of activities to maintain and enhance services, for example increasing storage in the water distribution network, managing pressure in the network and installing further data loggers to improve our knowledge of how the network operates. Water efficiency is also central to our plans and we describe this below.

We sometimes need to temporarily interrupt customers' water supplies to undertake emergency and planned maintenance. At 10 minutes, 28 seconds, in 2018/19, we have performed better than the Performance Commitment of 12 minutes.

We recognise that any interruption to water supplies can be critical to some customers. We have targeted this measure as one our key Performance Commitments to outperform as part of our upper quartile plans, with the intention of being the frontier company by the end of March 2021.

Our investments have greatly improved the resilience of our water service, but droughts could still impact customers' water supplies in extreme circumstances. In the summer of 2018 we experienced a period of hot, dry weather and demand remained high for an unprecedented prolonged period. This led to the crossing of 'control lines' in our Drought Plan. These are trigger points which, once reached, result in escalated levels of action to maintain resilient water supplies. We applied for, and were granted, two drought permits to temporarily increase river abstractions limits, however these permit applications were a precautionary measure and we did not need to use them in practice. Our Drought Plan contains several options to tailor our response to the exact conditions of any drought as it develops. We learn from each drought and update our Drought Plan accordingly. Our planning enables us to act quickly because options have been assessed for their potential environmental impact and mitigation strategies developed. The two additional options have low environmental impacts and will enhance our current plan.

Our Water Resources Management Plan (WRMP) describes how we will maintain the balance between water supply and demand over the next 25 years. Our new WRMP proposes to reduce leakage by 40%, to reduce the risk of climate change creating a deficit in our supply demand balance.

Our Drought Plan and WRMP can be found at:

www.yorkshirewater.com/resources

In line with our duties under the Water Industry Act 1991, we revise our Drought Plan and WRMP every five years to ensure they reflect the most up to date information and potential risks to security of supply. Each iteration of our plans is subject to a public consultation to allow customers and stakeholders to comment. Our latest plans were published for consultation in January 2018. We expect to publish the final version of our latest WRMP in 2019, and our Drought Plan will be updated and republished for consultation in 2019 to include the two additional options as explained above.

Reducing the company's own water use

We seek to demonstrate leadership in the efficiency of our operational use of water. Our AMP7 Business Plan includes a bespoke Performance Commitment on water recycling. We have identified a number of works that would benefit from some additional alternative treatment practices to either introduce recycling capabilities or improve on existing. The delivery of schemes will start in AMP7 and will reduce our own abstractions.

Leakage

Leakage is the amount of water lost from our network including when it's being transported between the treatment works and customer homes and businesses. We actively measure, monitor and reduce leakage as the dominant source of water waste. The response to the challenging environmental conditions started in early 2018 and was maintained throughout the 2018/19 reporting cycle with increased resources and improved data analysis. This approach ensured that the Performance Commitment target of 292.1 megalitres per day was achieved with a figure of 289.8 megalitres per day.

The hottest English summer on record consequently resulted in additional ongoing operating expenditure. Yorkshire Water's network was already experiencing significantly higher levels of leakage following the cold weather commonly called the 'Beast from the East,' over the 2017/18 winter period. The summer heat combined with the driest May to July in 2018 across England since 1921, resulted in additional leakage costs attributable to increased find activity and increased number of repair and maintenance jobs.

Plans are now well underway to significantly reduce leakage by 40% by 2025. Having escalated resources to work towards this bold ambition has helped ensure we met our 2018/19 regulatory leakage target despite the challenges mentioned above. During 2019/20 we will be enhancing the use of satellite technology to detect leaks with over 20 additional areas of Yorkshire analysed to add to the one delivered in 2018/19. We have doubled the amount of leakage inspectors to approximately 300, to ensure that more proactive leakage detection is undertaken. 600 network listening devices were installed in 2018 and a further 34,000 will be installed by September 2019 supported by a team of expert analysts to help us utilise the new information that will be provided. The key driver for these new technologies is to improve effectiveness of leakage detection and to achieve our goal of being upper quartile.

Working with customers to save water

We support and encourage our domestic customers to save water. Our goal is to deliver tangible water efficiencies and sustainable behavioural change. In 2018/19 we gave away 18,341 free water saving packs. We also trialled a new water saving initiative offering our "Fit2Save" free home audit and retrofit service to household customers. This was delivered to 400 homes in the Sheffield area and we are now offering the service to customers in the Halifax area. As part of our education activities we engage with schools and communities on a wide range of topics including water efficiency. This has helped us achieve our Performance Commitment for water use, with per capita consumption out turning at 133.5 l/h/d in 2018/19 against a target of 139.3 l/h/d.

We provide a range of water saving advice and support:

- **Free leakage repairs** are offered to our customers for all domestic supply pipes which are not under buildings. In addition, we raise awareness with customers that they are legally responsible for the supply pipes in their property boundary. We also offer advice and support to help customers understand how they can manage their supply pipes. We also offer assistance for repair of any commercial supply pipe leaks.
- **Free water meters** are provided to household customers on request. Meters provide a financial incentive to use less water. Our WRMP forecasts the number of households with meters will increase over the next 25 years, from 50% to 84% by 2044/45. Metering is instinctively an appropriate method of charging for water supply and sewerage services, based on payment for use. However, metering can result in a more expensive bill because of the additional cost of installing and maintaining the meter.
- **Free water saving devices** like tap aerators and shower timers are provided to households, student accommodation and community groups. Our website also includes a link to our contractors' website offering customers the opportunity to purchase a range of water saving products including water butts.
- **Advice and information** is provided through communication campaigns, at events, in our written communications, social media and on our website. We also run education centres for schools and provide information packs for teachers and their pupils.
- **A home audit and retrofit water fitting service** trial will continue aiming to deliver the service to 2,000 to 3,000 customers over the next two years.

More information can be found on the dedicated water efficiency section of our website at https://www.yorkshirewater.com/savewater.

Reforming abstraction licences and encouraging water trading

The Water Act 2014 introduced new provisions to further improve the country's water efficiency and resilience, for example by making it easier for organisations to buy and sell water from each other. We have traded water with our neighbouring water companies for many years. Currently, we have an import agreement with Severn Trent Water to use water from the Derwent Valley to support demand in the Sheffield area. We also export a small amount of treated water from the Finningley area to Anglian Water to support their needs.

We have discussed potential future transfers with third parties including neighbouring water companies as part of revision to our Water Resources Management Plan (WRMP). Our draft WRMP19 does not include any new imports and we have not received any requests from other abstractors. In our 2019 WRMP we aim to reduce our leakage by 40% by 2025. This will create a significant surplus in our region, making us robust to climate change risks and creating greater potential for us to offer trades to other abstractors.

We will continue to explore the market for trading and inviting third party abstractors to discuss opportunities with us. We have published our Market Information on our website alongside our WRMP. This information includes key water resource and economic data that underpins our water resources planning, and associated investment to maintain a secure supply of water to our customers. We have produced a Bid Assessment Framework and a Trading and Procurement Code both of which provide potential bidders with information on how to submit a bid and how it will be assessed. This information will enable third parties to submit bids to either supply water resources or provide demand management or leakage services in Yorkshire.

We remain focused on this area to ensure resilience and efficiency in the face of the changing climate and a growing population.

Customer Outcome: We take care of your waste water and protect you and the environment from sewer flooding

<table>
<tr><th colspan="2"></th><th>2017/18 performance</th><th>2018/19 commitment</th><th>2018/19 performance</th><th>2019/20 commitment</th></tr>
<tr><td colspan="6">Our Performance Commitments to customers and regulators*</td></tr>
<tr><td colspan="2">Internal flooding
Number of incidents</td><td>1,682</td><td>≤1,919</td><td>1,692</td><td>≤1,919</td></tr>
<tr><td colspan="2">External flooding
Number of incidents</td><td>9,296⁺</td><td>≤10,487</td><td>9,116⁺</td><td>≤10,487</td></tr>
<tr><td rowspan="2">Pollution incidents#
Number of incidents</td><td>Category 1 and 2 †</td><td>3</td><td>≤ 2</td><td>11</td><td>0</td></tr>
<tr><td>Category 3 †</td><td>202</td><td>≤ 211</td><td>188</td><td>≤ 211</td></tr>
<tr><td colspan="2">Stability and reliability – waste water networks
Improving / Stable / Marginal / Deteriorating</td><td>Stable</td><td>Stable by 2020</td><td>Stable</td><td>Stable by 2020</td></tr>
</table>

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.
# Calendar year measure.
† Pollution incident categories are defined by EA as major (category 1), significant (category 2), or minor (category 3).

In order to meet this Outcome, we believe we need to manage overall flood risk and prevent pollution from our network.

Managing overall flood risk

We play our part in managing flood risk by providing a public drainage network and collaborating with other flood management agencies to support a joined-up approach to both short term incidents and long-term plans. We invest in the region's drainage network to reduce the risk from sewer flooding. For example, we have increased our proactive maintenance of the sewer network in 2018/19 to remove sewer blockages and maintain sewer capacity. Through this activity we were targeting areas where customers have previously experienced a range of issues with the aim that future incidents can be reduced or completely avoided. This has been a coordinated approach with communication campaigns running alongside the onsite activity to inform customers of the causes of issues and the role they can play to improve the situation.

We have invested in sewer network improvements and maintenance and continuously striving to improve the service we deliver to customers. One particularly successful communication campaign was the introduction of the 'Wipesaur,' which is a character that has toured Yorkshire explaining to customers what should and should not be flushed down the toilet or poured down the sink.

We have maintained "stable" status in the Performance Commitment for the Stability and Reliability of our waste water networks. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

In 2018/19, we again achieved our Performance Commitments for internal and external sewer flooding. The number of sewer flooding incidents, both internally and externally, have reduced compared to the previous year.

We continually invest across the region and collaborate with others to reduce flood risk. We provide examples below of some of our progress in 2018/19, with a focus on innovative approaches and community engagement:

- Yorkshire Water has worked in partnership with Hull City Council, East Riding of Yorkshire Council and the EA as part of the Living with Water Partnership to host the Hulltimate Challenge and Resilience Fair. The Hulltimate Challenge, a water themed urban assault course, was a three-day mass participation event which involved over 2,000 people including more than 1,000 school children. The Humbrella trail and Resilience fair, which were held at community events in the lead up to the main event and ran alongside the Hulltimate, were aimed at engaging the community about whole person resilience and raising the awareness of flooding in Hull and East Riding. These events were supported by 50 public, private and third sector organisations and reached 1.5 million people across a range of channels, including 500,000 people through television, radio and social media across the event weekend.
- In Norton, we completed an undertrack crossing to support the Malton and Norton Multi Agency Flood Plan. This plan was then implemented with our partner agencies including North Yorkshire County Council and Ryedale District Council in early April 2018 to prevent flooding to multiple properties.
- We have shared sewer modelling data with the EA for the Brighouse Flood Alleviation Scheme to allow the scheme to identify further opportunities for reducing flood risk in partnership.
- We launched a new community engagement programme, Soak it Up, which aims to install sustainable drainage techniques into schools and community areas whilst providing community education. In the first stage of the programme, we engaged over 400 children and over 40 adults in educational workshops and delivered sustainable drainage techniques to five different community locations.
- We launched the ‘Blockage Free Challenge’ to enable community groups or charitable organisations to bid for funding which they could use locally to help spread the word of our blockages campaign and drive down sewer blockages.
- We have been working with the EA and Defra to examine the use of our reservoirs to help flood management whilst understanding the wider implications that changes in reservoir operation could have on water supply in Yorkshire. Following a trial over the winter of 2017/18, we are now working with the EA to consider options for future investment in reservoirs above Hebden Bridge to further contribute to reduced flood risk.

Preventing pollution from our network

The number of pollution incidents in 2018 (calendar year measure) meant that we achieved our Performance Commitment for Category 3 pollution incidents (190 versus a target of 211 or fewer). However the number was above target for the Category 1 and 2 incidents (Major or Significant) with 11 impacting incidents against a target of two. During 2018 there were zero prosecutions for pollution incidents.

We recognise the need to go further and we are working to achieve the ambitious Performance Commitment for zero serious incidents from 2019/20, and challenging Upper Quartile targets to further reduce Category 3 incidents in AMP7.

Our plan to reduce both sewer flooding and pollution incidents to achieve industry-leading performance in the period 2020 to 2025 aims to result in out-performance against these measures during the current five-year investment period (AMP6) and on into AMP7. This will benefit both customers and the environment.

Customer Outcome: We protect and improve the water environment

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Stability and reliability – waste water quality Improving / Stable / Marginal / Deteriorating	Stable	Stable in 2020	Stable	Stable in 2020
Length of river improved Total cumulative length in kilometres, km	Programme commenced	≥ 440km by 2020	39.61	≥ 440km by 2020
Bathing water quality# Number of Yorkshire's designated bathing waters that exceed minimum legal standards	18	≥ 15	17	≥ 15
Land conserved and enhanced Total cumulative area in hectares, Ha	11,492	≥ 11,736 Ha by 2020	11,524	≥ 11,736 Ha by 2020
Recreational visitor satisfaction Percentage of satisfied customers when surveyed	96%	Survey and publish figures annually	99%	Survey and publish figures annually
Working with others Number of solutions delivered in partnership with others	12	≥ 3	11	≥ 4

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.
# Calendar year measure.
† We have reduced the value by 47Hectares (Ha) to reflect that we have removed land we no longer own.

In order to meet this Outcome, we believe we need to reduce pollution and enhance river quality, invest in the region's bathing waters, and manage our land to maximise its potential.

Reducing pollution and enhancing river water quality

We collect, treat and return around one billion litres of waste water safely back to the environment every day. We have maintained "stable" status in the Performance Commitment for the stability and reliability of our waste water quality. The status of this commitment is determined by a basket of measures which demonstrate the effectiveness of our long-term planning and asset management to ensure the resilience and sustainability of our service.

We remain on track in the delivery of our programme of environmental investment which contributes to our Performance Commitment to improve 440 kilometres of river by 2020, with a reported cumulative length of 39.61 kilometres achieved by the end of 2018/19. The majority of our schemes are programmed to complete during 2019/20.

The EA annually completes an Environmental Performance Assessment of the water companies in England, examining performance on a range of environmental compliance matters such as pollution incidents and waste water treatment works compliance. The EA has classified our 2018 calendar year performance as 'Requires Improvement' with two out of a maximum four stars in their rating system. Our performance in the EA's assessment has reduced on last year, predominantly driven by an increase in serious pollution incidents as discussed in the previous section.

The EA report shows our overall treatment works compliance in the 2018 calendar year to be 97.5%, which is a slight reduction from our performance of 97.8% in 2017.

Six of our 611 waste water treatment works did not meet their discharge permit conditions in 2018, securing 98.0% compliance. This was a reduction in performance compared to 2017 when we had five failing waste water works or 98.3% compliance. It is our continued aim to achieve high levels of performance and drive towards 100% compliance.

We had one failure in 2018 from our 21 water treatment works which have a discharge permit. This is a slight reduction in performance since 2017 but is similar to performance in prior years. We also operate a further 29 water works which do not require a discharge permit.

We also invest to protect the water environment from pollution caused by escapes from our sewer network. We discuss this in the "We take care of your waste water" section of this report on pages 17-18.

Investing in the region's bathing waters

In 2015, Yorkshire Water completed a £110m investment in key assets along the coastline to lessen the influence that our operations had upon the marine environment. Since then, we have continued to enhance our asset base to ensure its resilience. The table below shows the number of designated bathing waters in Yorkshire which achieved each of the water quality classifications defined by the Bathing Water Directive.

Classification	2016#	2017#	2018#
Excellent	11	5	5
Good	6	13	12
Sufficient	1	0	1
Poor	1	1	1

Calendar year measure.

We have achieved the Performance Commitment to maintain at least 15 beaches at an Excellent or Good legislative standard. 17 of our 19 beaches met these high standards and are going beyond the minimum legal requirement.

2018 has seen all but one bathing water classification remain the same, with Bridlington South moving from Good to Sufficient status. There are many factors for this and we are continuing to work with the Yorkshire Bathing Water Partnership to investigate and implement measures to improve quality in subsequent years. Scarborough South Bay remains Poor for a third consecutive year. We are continuing to work with the EA to investigate this.

Of the eight resort beaches in Yorkshire, one will be able to apply for the coveted "Blue Flag" status in 2019. A Blue Flag demonstrates that the beach complies with a range of standards, including water quality, available user facilities, provision of information and other requirements. We have a role in ensuring these requirements are met and other organisations also play a key part in achieving this aspiration.

We continue to work closely in partnership to play our part in achieving excellence on Yorkshire's designated beaches as part of the Yorkshire Bathing Water Partnership.

Managing our land to maximise its full potential

With approximately 28,000 hectares of land, we are one of the three largest land owners in Yorkshire and one of the top 20 largest landowners in the UK.

We are on track with our programme of work to deliver our Performance Commitment to conserve and enhance 11,736 hectares of land by 2020, much of which we are delivering in partnership with others. These have varied from longer term work that we have done in specific areas (for example, significant moorland restoration works with Moors for the Future, the HLF Watershed Landscape project, as well as HLF and other projects with the Nidderdale Area of Outstanding Natural Beauty) to the more focussed such as the work we are doing with Natural England to review and assess how we move our Sites of Specific Scientific Interest into favourable condition and the milestones needed to achieve that status. These projects fully align with our overall priorities and objectives for owning land as well as meeting societal objectives expressed through these stakeholder organisations. We have also joined with the National Trust in a ground breaking partnership where we are working together on a range of initiatives aligned to both organisations' strategic objectives.

In addition, we have continued to work in partnership with others to deliver environmental and biodiversity benefits for our customers and ecosystems. For example, we have been working with the Wild Trout Trust to undertake targeted river restoration work, and also to train local angling groups in the use of simple methods by which they can restore and strengthen the ecology in rivers across their area of interest. We continue to work with others to help improve regional biosecurity

and reduce the presence of invasive species, for example, by funding training of River Holme Connections volunteers in the safe use of herbicides, leading to over 20 km of river being managed at a catchment scale, upstream of our assets.

Most of our land not used for operational activities is tenanted to farmers and we have continued to manage our farm tenancies with our “Beyond Nature” initiative delivering multiple outcomes from our land that are tailored to each site. We now have six farms signed up covering over 4,700 hectares. A variety of partnership working arrangements are supporting delivery; Natural England Stewardship agreements, Heritage Lottery Fund grants and joint initiatives with local conservation organisations - as well as Yorkshire Water’s own support.

The tenant on our first and ‘flagship’ Beyond Nature farm – Humberstone Bank, has implemented a range of initiatives to realise the Beyond Nature vision. This includes restoration of traditional hay meadows, the construction of a wildlife and sediment pond, introduction of conservation grazing with a small herd of native cattle, and woodland creation; these are all aimed at significantly enhancing biodiversity, as well as improving water quality and increasing carbon storage capacity. Yorkshire Water has also supported the development of the Humberstone Upland Hub: a converted traditional farm building with the facilities to host conferences, meetings and educational visits. To date the Hub has been used by a range of organisations – mainly with a sustainable land management and conservation focus. Plans are in place to significantly increase the number of educational visits hosted at the Hub.

We are now working on producing more information and guidance for potential tenancies, building partnerships to support implementation and promoting the achievements and lessons that we are learning along the way. Other farms will be signed up soon and we continue to attract national interest from others interested in the concept and “Beyond Nature” will be a key AMP7 Performance Commitment.

The company provides a wide and diverse range of recreational opportunities with open access available to much of our rural estate and over 50 clubs and organisations undertaking their activities on our land and reservoirs. We have a Performance Commitment to survey recreational visitor satisfaction at our sites and to publish the results, with the most recent surveys reporting 99 % of our visitors to be satisfied or better with their experience. A new reception hide at Tophill Low Nature Reserve has won awards for its sympathetic and accessible design helping to underpin a year of activities that has seen the highest number of visitors to the site since it opened. We also received an ‘Accessible Derbyshire’ award for our work with the National Park on the “Miles Without Stiles” project that helps promote accessible routeways giving guidance as to how accessible each route is.

As part of maximising value from our operational land estate, we review land use and opportunities in accordance with our Six Capitals approach. We are working on initiatives that include having bio-gas converted and supplied into the national gas grid, photovoltaic solar energy for direct supply to our operational assets, off-setting of our carbon emissions and using partnership working to manage dormant operational land, for example, Sustainable Urban Drainage assets providing for water storage and ecology improvements in predominantly urban areas.

Customer Outcome: We understand our impact on the wider environment and act responsibly

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Waste diverted from landfill Percentage of our waste diverted from landfill	99.4%	≥ 95.0%	99.6%	≥ 95.0%
Renewable energy generation Percentage of our energy needs generated by renewable technology	11.4%	≥ 12%	11.3%	≥ 12%

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, it is important that we increase our renewable energy generation and reduce the amount of waste that goes to landfill.

Our approach to understanding our impact on the wider environment and acting responsibly to protect our environment includes managing electricity consumption, reducing waste and greenhouse gas emissions, supporting Yorkshire charities and promoting global safe water, working ethically and responsibly for human rights through our supply chain, and ensuring our colleagues are treated appropriately through a health, safety and wellbeing focus, diversity and gender pay and conducting colleague surveys.

Environment

Turning waste into resource

We continue to advance our work to reduce waste and find innovative ways to take more value from under-used materials and resources such as waste water, sewage sludge and our operational land. Ongoing success in our Performance Commitment to divert almost all our waste from landfill serves to demonstrate our strength in this area.

Our approach is based on collaborative engagement with multiple stakeholders because this enables better opportunities than working alone. We are working closely with local authorities, and community groups, universities and regional development agencies.

Our flagship resource recovery programme is progressing well at Esholt waste water treatment works in Bradford. Here we are embracing the principles of circular economies to help further eradicate waste and take more from under-used resources. We are working with a range of partners on a mix of projects across the large site to deliver an exciting vision for green growth through sustainable homes and businesses that use redundant brownfield land, spare renewable heat and currently unused waste water. In addition, recovery of redundant sludge lagoons next to the River Aire would provide benefits such as reduction in flooding and increased biodiversity.

Managing electricity consumption and costs

We are a large consumer of electricity because it is energy intensive to move and treat water and waste water. Electricity is critical to the resilience of our operations and is one of our largest operating costs. Traditional sources of electricity can also be carbon intensive. To manage these matters, we are producing an increasingly substantial amount of renewable energy, we purchase 100% renewable energy, and we are continually looking for opportunities to reduce the amount of energy we consume.

We increased our energy consumption in the dry winter and warm summer of 2018, from 598GWh in 2017/18 to 620GWh in 2018/19. To ensure resilient water supplies during extreme weather, we increase the amount of pumping we undertake through our water grid network to ensure water is available when and where it is needed.

On renewable energy generation, we achieved a four year high in our performance by generating over 70GWh which met 11.3% of our total electricity needs in 2018/19. This progress was not sufficient to achieve our performance commitment to generate 12% of electricity needs, but we expect to achieve this in 2019/20 and beyond following completion of our £72m investment in a new sludge treatment and anaerobic digestion (AD) facility at our Knostrop treatment works in Leeds. This investment will enable a substantial increase in our generation capabilities, and we are well underway in our next investment in another new AD facility at our works in Huddersfield.
During Spring 2019, we installed solar panels on the roof of one of our main office buildings as part of a programme of sustainability improvements at our head office. We are also investigating the potential to introduce a large programme of solar power across our sites.

Reducing operational greenhouse gas emissions

Operational emissions are those produced through the activities we undertake to provide our day to day services. It is a priority that we lead by example in reducing our carbon emissions because the public services we provide fundamentally rely on the stable climate, and because we have large a carbon footprint with the energy-intensive nature of our operations.
We are making strong progress on our new and bold commitment to achieve net zero carbon emissions by 2030, with further substantial reductions in 2018/19 that builds on our long term trend. This performance follows our continued investment in renewable energy generation and purchasing. We now only purchase certified renewable electricity. Our ongoing retention of the Carbon Trust Standard provides independent verification of our success in reducing our carbon emissions.

It is a demonstration of our increasing maturity in this area that we have this year expanded our carbon reporting to include both the ‘location’ and ‘market’ based methods. In best practice carbon accounting, the market-based method recognises the carbon reductions we support by purchasing only renewable energy, while the location-based approach assumes all purchased electricity has the average emissions of the UK’s national electricity grid supply. This later approach supports the continued focus on energy efficiency, no matter how it is generated, because the most sustainable long term approach is to use less. The table below shows our latest carbon performance using a standardised UK water industry tool that follows Government reporting guidelines and uses latest emission factors.

Carbon accounting methodology	**Location-based (If electricity has grid-average emissions)**			**Market-based (If recognise our renewable electricity)**
Year	**2016/17**	**2017/18**	**2018/19**	**2018/19**
Operational emissions – kilotonnes of carbon dioxide equivalent (KT CO_2e)				
Scope 1 emissions KT CO_2e	65	74	77	77
Scope 2 emissions KT CO_2e	211	187	156	0
Scope 3 emissions KT CO_2e	31	27	25	11
Total gross emissions KT CO_2e	**307**	**288**	**258**	**89**
Total net emissions KT CO_2e	**307**	**288**	**258**	**89**
Intensity ratio – kilogrammes of carbon dioxide equivalent (kg CO_2e)				
Emissions per million litres of water served	263	225	206	N/A
Emissions per million litres of waste water treated	218	235	219	N/A

Scope 1 emissions are those we directly release to the atmosphere, for example from burning fossil fuels on our sites, driving company vehicles, and releasing gasses during treatment processes.

Scope 2 emissions are those indirectly released to the atmosphere through our purchase of national grid electricity to pump and treat water and waste water.

Scope 3 emissions are other indirect emissions. We include business travel on public transport and in private vehicles, activities from outsourced operators and emissions from the transmission and distribution of the grid electricity that we purchase.

We have achieved dramatic falls in our operational emissions. They are down 80% from 448KT CO_2e in 2004/05 when we first started reporting our carbon emissions, if recognising our purchase of renewable energy using the market-based accounting methodology. Or down 57% if using the location-based approach which considers all our electricity as if it had the carbon emissions of the average national electricity grid supply.

While we have been successful in making large reductions in our total operational emissions, our Scope 1 (or Direct) emissions show an increasing trend over the last three years. There are a number of reasons for this, with a key contributor relating to our use of gas oil in our incinerator plant in Leeds. However, the incinerator was permanently closed in 2018/19, replaced by the new AD plant which we describe above as our method for managing sewage sludge. This is the latest investment in our strategy to cease all our incineration activity and ensure virtually all the sewage sludge we manage is recovered for its calorific and nutrient value through our renewable energy and land recycling programmes.

In addition to our continued focus on renewable energy generation and energy efficiency, we are increasingly focused on the other areas of our operational carbon footprint that will reduce our Scope 1 emissions. In addition to a focus on gas oil, we are also exploring ways to decarbonise our large fleet by reducing our travel and switching to electric vehicles. We are also amongst the leaders in looking to reduce emissions beyond our direct operational footprint, as we describe below.

Looking beyond our operational greenhouse gas emissions

Embedded emissions are those that result from the purchase of goods and the construction of new assets. One of our six commitments to the government's Infrastructure Carbon Review is to reduce the emissions embedded in our capital investments. This is good for the environment and drives innovative and partnership solutions that deliver new ways to save costs. Through 2018/19 we have consistently measured the carbon in all our capital schemes as they complete. The schemes we have so far completed this AMP are showing a good reduction in embedded carbon. We have been learning from our successes in reducing carbon, for example by using less traditional cements, to help us further enhance our approach to cutting carbon throughout our asset management programme.

We are working to understand our total carbon footprint by considering the emissions throughout our value chain – in our supply chain and in our customers use of water. While we don't have accountability or strong levels of control in some of these broader emissions areas, we recognise that we may be able to enable further emissions reduction beyond our direct operations and capital investment programme. We will be publishing further information on this in the coming months.

Our environmental governance and policy

Our environmental policy recognises that a sustainable water and waste water business is dependent on environmentally sustainable operations. We are therefore committed to integrating environmental best practice and continuous improvement through the efficient and effective conduct of our business. Central to our environmental governance and risk management is our ISO 14001 accredited Environmental Management System. We have been continually accredited to the ISO 14001 standard since 2004 and we are now preparing for the upcoming changes to the standard. Environmental performance is reported through our website which is regularly updated. This can be viewed at: www.yorkshirewater.com/about-us/what-we-do/investment-in-the-environment.

<u>Communities</u>

Supporting communities through charitable giving and volunteering

We challenge ourselves to "make a difference" to the quality of people's lives over and above the provision of high quality water and waste water services.

Yorkshire Water's established community programmes provide support through voluntary time-giving and help-in-kind to a wide variety of different individuals and organisations. These partnerships are of real importance to us in terms of building a greater understanding of, and forging stronger links with, the communities in which we operate.

Some of the key initiatives are:

- Education centres providing a bespoke programme of visits for primary and secondary schools, further education and special interest groups. In preparation for our future commitment to deliver 20,000 learning hours, we have been increasing our education provision throughout the year. We had 7,507 visitors during 2018/19 (2017/18: 7,163) and delivered outreach programmes to 9,252 young people and adults (2017/18: 8,569).
- Our volunteering programme "Hands Up" comprises initiatives enabling employees to choose from a variety of opportunities, such as providing support to organisations including the Canal & Rivers Trust, Yorkshire Wildlife Trust, the RSPB, and supporting STEM awareness in schools.
- Our 'Soak it Up' campaign works with communities and schools to encourage residents and pupils to think about how small actions can contribute towards a reduced risk of flooding. We partnered with Yorkshire Wildlife Trust on a pilot project during the summer of 2018 working with five schools and community organisations to raise awareness and install small scale Sustainable Drainage Systems which could be replicated in the wider community. Such was the success of the pilot, that we are now working with a further twelve schools during the 2018/19 academic year.
- In October 2018 we introduced an industry first 'Industrial Cadets' work experience programme which is accredited by the Engineering Development Trust. A total of 26 young people undertook a week-long course during their school holiday and learnt about the wide range of work undertaken by the business.

Supporting global safe water

We have a history of supporting those in developing countries who do not have access to safe water and sanitation. The Big Wish for Ethiopia is our industry-leading strategic partnership with WaterAid that is delivering knowledge sharing on water and sanitation, providing infrastructure support and much more. Our aim was to raise £1 million for WaterAid over five years to support projects that will transform lives in Ethiopia, and this ambition was achieved earlier in 2019. Our Big Wish for Ethiopia goes beyond fundraising, including exchange visits to share our skills and experience and a youth engagement programme to raise awareness in schools.

Our people

Working ethically and respecting human rights

Our Human Rights Policy recognises international human rights, as set out in the Bill of Human Rights and the principles described in the UN Global Compact. The policy can be found on our group website at: www.keldagroup.com/corporate-governance/kelda-group-policies/.

It is a fundamental policy of Yorkshire Water to conduct its business with honesty and integrity and in accordance with the highest standards of ethics, equity and fair dealing. Our Code of Ethics can be found on our group website at: www.keldagroup.com/corporate-governance/kelda-group-policies/.

We have taken steps to assure there is no slavery or human trafficking occurring within our organisation or its supply chains. Our Living Wage accreditation ensures all employees are paid over and above statutory wage levels. We also embed contractual requirements throughout our supply chain activities and check compliance through a range of assurance controls including the requirement that all suppliers will abide by our Living Wage Commitment In compliance with the Modern Slavery Act 2015 we publish annual statements. Our latest statement can be found on our website at: https://www.yorkshirewater.com/about-us/what-we-do/modern-slavery-act.

8 DECENT WORK AND ECONOMIC GROWTH

This supports target 8.7 to take measures to eradicate forced labour, end modern slavery and human trafficking

Ensuring responsibility throughout our supply chain

We are committed to promoting a supply chain that delivers the long term provision of great value and highly resilient services to our customers. Our ambition is to work in collaboration with our suppliers to responsibly address existing and emerging social, economic and environmental challenges, both locally and globally.

Our Sustainable Procurement Strategy outlines our priorities through to 2025 with an emphasis on health & safety, modern slavery and carbon. We have enhanced our capabilities in health & safety auditing and supply chain carbon assessments and we will be exploring similar opportunities during 2019/20 in the fight against modern slavery in all its forms as we do not currently audit our suppliers against this risk. Further information can be found on our website at:

https://www.yorkshirewater.com/sites/default/files/Final%20Supply%20Chain%20Strategy%20-%20website.pdf

Although the majority of our supply contracts are with UK or European entities, we recognise that our supply chains extend into emerging economies and developing countries where child and forced labour may be present. We therefore reserve the right to audit at any time. Our latest supply contracts and purchase order terms oblige all suppliers to comply with the Modern Slavery Act 2015, which includes the abolition of human rights abuse in all its forms. At present we estimate that over 90% of our supplier contracts will include the Modern Slavery clause.

Health, safety and wellbeing

During 2018/19 we made significant progress in implementing our Health and Safety Improvement Plan, which is key in realising our Health and Safety vision of: "Everybody, Every Day, Safe and Well, and We Know It".

The plan is over 90% complete, with initiatives focussing on personal, process and infrastructure changes to ensure that the health, safety and wellbeing of colleagues and other stakeholders is maintained and not compromised by our activities. The plan was put in place in 2016 and has been completed in order of risk priority. The key plan objectives are to:

- Mature our health and safety culture through sustained leadership and colleague engagement;
- Ensure colleagues are trained and competent to do their jobs safely;
- Consistently identify and manage our health, safety and wellbeing risks;
- Improve the safety of our assets;
- Embed process safety policies and practices;
- Manage the health, safety and wellbeing risks of our suppliers and contractors; and
- Ensure effective health, safety and wellbeing communications.

In occupational safety, we achieved our Lost Time Injury Rate (LTIR) target of 0.34; this is based on the number of injuries resulting in time off work per 100,000 hours of work. In achieving this target, we reduced the number of colleagues injured at this level by 30%. We rolled out an enhanced Control of Work process and introduced Human Factor considerations into equipment and asset design. In process safety, we continued our focus on our higher hazard assets with the introduction of enhanced procedures, investigations and key leading and lagging performance indicators.

In health and wellbeing our focus on mental health continues, and we have now trained around 850 colleagues as Mental Health First Aiders. They are equipped to recognise the early signs of mental health problems in colleagues, leading to early intervention and support from our in-house Occupational Health team. We believe this initiative has significantly contributed to a reduction in the number of colleagues that need to be referred for further professional support, such as external counselling.

Looking ahead to 2019/20, we will continue to focus on embedding our key processes such as Life Saving Rules, Fair Culture and Control of Work, with the aim of reducing injuries and increasing the number of Safe Days across the organisation. We also plan to achieve external accreditation to ISO45001, the International Health and Safety Management System standard.

Our health and safety strategy and plan continue to be fully aligned to our overall business strategy and are key in continuing our journey in terms of maturing our health and safety culture, reducing operational risk and meeting our stakeholder needs.

Attracting great people and maintaining the skills we need

We recognise that our people are our most important asset and are striving to make our workforce as resilient as we can to ensure our success, both now and in the future. We are developing our people through a range of training initiatives, developing talent programmes and rewarding our colleagues with a fair wage and reward package. In 2018/19 we have:

- Expanded our apprenticeship offering from 110 as of March 2018 to 124, with a planned intake of 51 more internal and external apprentices in September 2019, maximising our usage of the Apprenticeship Levy and anticipating future needs based on our expected skills gaps and potential risk of lost knowledge due to retirement;
- In our graduate programme, we have continued to develop our eight graduates ready to complete their programme in August 2019, with nine more graduates recruited for a September 2019 start; and
- Developed operational front line and management onboarding and induction plans that provides critical skills and knowledge to help new colleagues succeed in their role.

Championing diversity

Below we provide diversity statistics relating to those directly employed by Yorkshire Water on 31 March for the last three years:

Gender	Male			Female		
	2019	2018	2017	2019	2018	2017
Statutory directors	8 (80.0%)	8 (66.7%)	6 (60.0%)	2 (20.0%)	4 (33.3%)	4 (40.0%)
Senior managers	20 (69.0%)	18 (72.0%)	16 (69.6%)	9 (31.0%)	7 (28.0%)	7 (30.4%)
Total employees	2,357 (76.9%)	2,086 (75.9%)	2,021 (75.3%)	710 (23.1%)	661 (24.1%)	662 (24.7%)

Ethnicity	White			Black and Minority Ethnic (BME)			Not disclosed		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Statutory directors	10 (100%)	12 (100%)	10 (100%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)	0 (0.0%)
Senior managers	20 (69.0%)	23 (92.0%)	21 (91.3%)	3 (10.3%)	2 (8.0%)	2 (8.7%)	6 (20.7%)	0 (0.0%)	0 (0.0%)
Total employees	2,429 (79.2%)	2,211 (80.5%)	2,153 (80.2%)	150 (4.9%)	140 (5.1%)	113 (4.2%)	488 (15.9%)	396 (14.4%)	417 (15.5%)

Age	Year	16-25	26-35	36-45	46-55	56-65	66+
Statutory directors	2019	0 (0.0%)	0 (0.0%)	2 (20.0%)	4 (40.0%)	4 (40.0%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	2 (16.6%)	5 (41.7%)	5 (41.7%)	0 (0%)
	2017	0 (0.0%)	0 (0.0%)	0 (0.0%)	3 (30.0%)	5 (50.0%)	2 (20.0%)
Senior managers	2019	0 (0.0%)	0 (0.0%)	12 (41.4%)	14 (48.3%)	3 (10.3%)	0 (0.0%)
	2018	0 (0.0%)	0 (0.0%)	10 (41.7%)	13 (54.2%)	2 (4.1%)	0 (0.0%)
	2017	0 (0.0%)	0 (0.0%)	11 (47.8%)	10 (43.5%)	2 (8.7%)	0 (0%)
Total employees	2019	274 (9.0%)	865 (28.0%)	690 (22.5%)	770 (25.2%)	456 (14.9%)	12 (0.4%)
	2018	195 (7.1%)	693 (25.2%)	679 (24.7%)	745 (27.1%)	419 (15.3%)	16 (0.6%)
	2017	174 (6.5%)	667 (24.9%)	670 (25.0%)	740 (27.6%)	414 (15.4%)	18 (0.7%)

We strive to be as diverse as the community we serve, inclusive of all. Diversity and inclusion provides business benefits and supports social cohesion. Examples of activities we are doing in this area are:

- We hold the National Equality Standard and have an action plan that is linked to the feedback from it, as well as the overall company strategy and objectives.
- We have published the Workforce Diversity report, capturing the ethnicities, gender and disability of our workforce. This shares the company's position with the rest of the business and areas that we need to work on. We have also published our ethnicity and gender pay gap reports.
- We are members of a Business Disability Forum; this gives all colleagues access to an advice service with support for any matters around disability and provides managers with a range of support and guides to assist their teams with disability. The colleagues that used it in 2018 received help in putting together some amendments to our Reasonable Adjustment Policy.

- We are part of the Inclusive Top 50, a membership with a network of organisations that promote inclusion across all protected characteristics, throughout each level of employment within their organisation and representing the promotion of all strands of diversity.
- We are members of the Energy Utility Skills partnership and together with other members we have made an inclusion commitment which aims at highlighting the sector's commitment to diversity and inclusion.
- We run the Yorkshire Diversity Forum, with over 60 members from across Yorkshire, consisting of businesses, individuals and organisations, both private and public sector. The Forum comes together to share best practice.
- The company has a big role to play in addressing skills shortages, particularly when it comes to the Science, Technology, Engineering and Mathematics (STEM) subjects. The company proactively supports national Women in Engineering week by running a number of events with girls from local schools. The company has invested in a STEM focused development programme to support our female talent in technical roles and will support 100 females through specific talent development programmes over this AMP. We currently have 19 registered STEM ambassadors and 27 prospective and interested colleagues.
- We have continued to invest in female development leadership programmes to address the under-representation of females in leadership roles. There is a current third cohort of 20 women on the leadership programme, which they completed in June 2019.

  Members of the previous cohorts have been very successful within our business and have a strong support network in place.
- A director sponsored diversity and inclusion steering group actively drives progress in this area; ensuring the policy is reviewed regularly, setting targets, monitoring progress and ensuring that the aspirations of the company are being met. The steering group has four key work streams, each with a prioritised area of focus, these are gender, ability, LGBTQ and ethnicity. The work streams support the priority themes of the diversity and inclusion strategy of representation, inclusion, capability and customer equality and corporate social responsibility, supporting us to become a more diverse and inclusive employer and better reflect our customer base.
- We continue to partner with the Lighthouse Futures Trust, which supports children and young adults on the autistic spectrum. We run supported internships for students with an autistic spectrum condition. In the first year, five out of the seven secured further opportunities within Yorkshire Water. In 2018/19 at least three colleagues from Lighthouse joined Yorkshire Water on employment contracts after completing their internship. We are working with the business to see where we could provide further internships for 2019/20.
- We created a partnership with Barnardo's and have implemented a traineeship with students from Barnardo's education training and skills centre. The students, from a broad range of backgrounds, undertake placements and study.
- We will be running a reverse mentoring programme in 2019/20 that will allow colleagues from different backgrounds in the business and different levels to share experience and understand each other's lived experience and therefore support our commitment to inclusion.
- We are currently reviewing our internal recruiting process and planning to test out different ways to expand our inclusion as a company, including encouraging flexible working and job shares, for example.

Gender pay gap

We started reporting information on the gender pay gap in 2015. Since then, we have seen the development and implementation of The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 and we have published our gender pay gap data, in line with the Regulations, for Yorkshire Water, as summarised below.

Pay and bonus gap

Year	Mean Hourly	Median Hourly	Mean Bonus	Median Bonus
2018	4.7%	6.2%	-2.8%	0%
2017	4.8%	4.7%	-10%	0%

Receiving bonus

Year	Females	Males
2018	92.6%	91.1%
2017	98.1%	96.8%

Pay quartiles

Year	Top quartile		Upper middle quartile		Lower middle quartile		Lower quartile	
	F	M	F	M	F	M	F	M
2018	19.0%	81.0%	23.6%	76.4%	22.1%	77.9%	28.9%	71.1%
2017	22.0%	78.0%	23.6%	76.4%	22.5%	77.5%	30.6%	69.4%

Further information about our gender pay gap and the action we are taking to address it can be found on our website at:

https://www.yorkshirewater.com/sites/default/files/730760_YWS_Gender%20Pay%20Gap_Web_A4.pdf

Ethnicity pay gap

Following the McGregor Smith review in 2017 we reported our Ethnicity Pay Gap data for the first time in March 2019, which was for the calendar year 2018. We were the first water and sewerage company to do so:

2018

	Mean hourly pay	Median hourly pay
Employees	£18.75	£18.10
White employees	£18.78	£18.21
BME* employees	£18.22	£17.10
General pay gap	3.0%	6.1%

*Black, Asian and minority ethnic

Further information about our ethnicity pay gap and the action we are taking to address it can be found on our website at:
https://www.yorkshirewater.com/about-us/newsroom-media/workforce-diversity-report-2019

Customer Outcome: We keep your bills as low as possible

	2017/18 performance	2018/19 commitment	2018/19 performance	2019/20 commitment
Our Performance Commitments to customers and regulators*				
Number of people we help pay their bill	28,853	Publish figures annually	31,606	Publish figures annually
Cost of bad debt to customers Percentage of the average customer's bill	3.10%	≤ 3.16%	3.02%	≤ 3.16%
Value for money Percentage of customers agreeing we are "value for money" in an independent survey by the Consumer Council for Water (CCW)	76% water 79% waste water	Average 2015-20 performance to be better than average 2010-15 performance.	77% water 79% waste water	Average 2015-20 performance to be better than average 2010-15 performance.

* More information on our Performance Commitments is provided in our Annual Performance Report, which can be found on our website at www.yorkshirewater.com/ourperformance.

In order to meet this Outcome, we aim to keep bills as low as possible by managing customer debt, our financial performance, investment programmes, borrowing requirements, financial risk and corporation and other taxes.

Ensuring affordable water services and managing customer debt

We know that affordability is a key concern in Yorkshire. Most customers cannot choose their water company, so it is essential that we provide our services as efficiently as possible so that our customers get value for money and feel that our bill is affordable.

The price of our bills has always been, and remains, a top priority for our customers. Our average household bill is below the national average at £387 in 2018/19.

Our affordability strategy is a simple one, we:

- Keep bills affordable for customers and free them from worry.
- Innovate to deliver services efficiently.
- Deepen our understanding of customers' needs, allowing us to anticipate them.
- Prevent customers from falling into debt by knowing their individual circumstances.
- Deliver prompt and meaningful support when it is needed.
- Where debt occurs, help get customers back on their feet as quickly as we can.

We offer financial help through a broad range of support schemes. We have further increased the number of customers we help through our support packages, up from nearly 29,000 customers in 2017/18 to 31,606 in 2018/19. By March 2020 we aim to increase this number to 40,000.

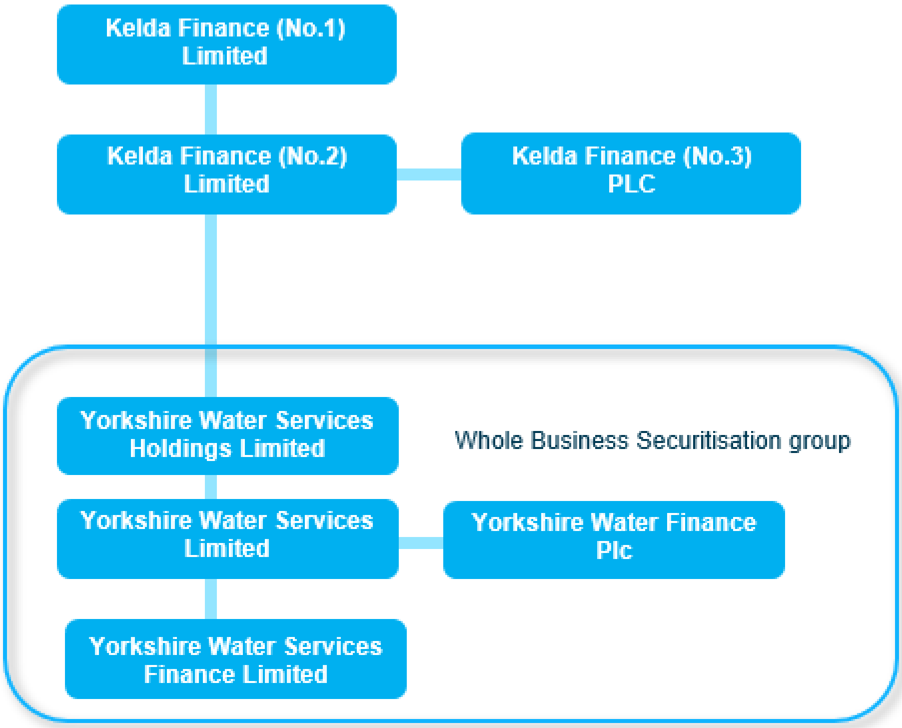
Non-recovery of customer debt threatens profitability in the short-term and may increase bills for paying customers in the medium to long-term. The Price Review process incorporates an allowance in prices for the cost of debt considered to be irrecoverable. To help minimise this cost we operate a range of schemes designed to help customers who genuinely struggle to pay their bill while having strong processes in place for overall debt collection. One of our Performance Commitments is to ensure the cost to customers of our bad debt is kept at no more than 3.16 per cent of the average bill. In the year we have maintained our leading approach to debt management, this cost being 3.02 per cent of the average bill in 2018/19. This calculation is stipulated by Ofwat and therefore does not include the accounting adjustment made to the bad debt charge explained in note 1 to the financial statements.

Each year, the Consumer Council for Water (CCW) survey water customers about perceived value for money. Latest results show that 77 per cent of customers agreed our water service was "value for money", and 79 per cent for our waste water service. We are pleased to be achieving our Performance Commitment to improve average satisfaction scores this AMP compared to the last one, for both water and waste water services. As last year, our scores are above the industry average.

Our corporate structure

The diagram below shows a summary of the active companies within the group. All companies are wholly owned unless stated otherwise. Details of the group's shareholders and capital structure are also published on the group's website, found at this link: www.keldagroup.com/corporate-governance/.

Kelda Finance (No.1) Limited Group corporate structure at 31 March 2019



Summary of Group company activities

The details and activities of the companies within the condensed group structure chart above are as follows:

- **Kelda Finance (No.1) Limited, Kelda Finance (No.2) Limited, Kelda Finance (No.3) PLC –** these companies were incorporated to issue debt and raise loan financing facilities outside of the Whole Business Securitisation (WBS) Group, described below. They are all incorporated in England and Wales and are wholly and exclusively resident for tax in the UK.
- **Yorkshire Water Services Holdings Limited –** incorporated in England and Wales and wholly and exclusively resident for tax in the UK. The company is the immediate holding company of Yorkshire Water Services Limited.
- **Yorkshire Water Services Limited -** incorporated in England and Wales and wholly and exclusively resident for tax in the UK. This is the main company in Kelda Group, providing water and waste water services to the Yorkshire region.
- **Yorkshire Water Finance Plc, Yorkshire Water Services Finance Limited –** both incorporated in England and Wales and wholly and exclusively resident for tax in the UK. Both companies are within the Whole Business Securitisation (WBS) described below. Yorkshire Water Finance Plc is the finance company for debt issued after the introduction of the WBS. Yorkshire Water Services Finance Limited is the legacy finance company for debt issued prior to the introduction of the WBS.

Whole Business Securitisation

Yorkshire Water established a financing structure known as Whole Business Securitisation (WBS) in July 2009. The WBS enhances the creditworthiness of Yorkshire Water by setting strict rules that demonstrate to lenders the company is a safe and reliable business in which to invest. Lenders are therefore more prepared to lend to Yorkshire Water at lower rates of interest than would otherwise be the case. This WBS works by placing a protective ring-fence around Yorkshire Water's business which includes the way it operates, the way it trades with other group companies outside the WBS, and the way it finances itself. The protections include limits on borrowings, dividends and the ability to lend money to other Kelda companies.

In 2018 Yorkshire Water took steps to remove its Cayman Islands incorporated, and wholly and exclusively UK tax resident, financing subsidiaries. Following Ofwat consent, Her Majesty's Revenue & Customs (HMRC) clearance, rating confirmations and secured creditor consent, on 16 August 2018 a new UK incorporated financing subsidiary, Yorkshire Water Finance PLC (YWF), replaced the Cayman Islands subsidiaries by being substituted as the issuer of approximately £3 billion of listed bonds and private notes. On 17 August 2018, the now dormant Cayman Islands companies were transferred from Yorkshire Water ownership to our parent company, Kelda Group Limited and have been placed into liquidation.

Delivering and governing our investment programmes

Our Board Investment Committee (BIC) uses delegated authority from the Yorkshire Water board to govern the effective and efficient delivery of our investment programmes and deliver best value for customers and the business.

Capital expenditure for 2018/19 was £515.1 million (2018: £426.7 million). Year four of the current five-year AMP reports an underspend of £25.7 million against the business plan programme. This is largely due to the rephasing of projects, aimed at achieving upper quartile status in the water sector, into year five of the AMP. A further £12.7 million (2018: £18.4 million) of additional capital expenditure was incurred in 2018/19 relating to the 2015 flood remediation.

Managing and governing our borrowing requirements

Treasury strategy is designed to manage exposure to fluctuations in interest rates, to rule out speculation, and to source and structure the Group's borrowing to meet projected funding requirements. Our treasury operations are controlled by a central treasury department.

Our operations are financed through a combination of fixed capital, retained profits, long-term loans, finance leases and bank facilities. Any new funding is raised by the treasury team in the name of the appropriate group company and subject to relevant debt covenants. Within the conditions of the Whole Business Securitisation (see above), funds raised may be lent to or from Yorkshire Water Services Limited on a fully arm's length basis.

Any cash surplus to operating requirements is invested in short-term instruments with institutions having a long-term rating of at least A-/A-/A3 and a short-term rating of at least A1/F1/P1 issued, respectively, by S&P Global Ratings (S&P), Fitch Ratings (Fitch) and Moody's Investors Service (Moody's).

During the year, we:

- Raised £275 million of debt in the form of bilateral loan facilities and private placement notes for tenors ranging between ten and twenty years;
- Extended by one year to October 2023 the maturity date of the £560 million revolving credit facility with a syndicate of eight banks; and
- Renewed liquidity facilities in March 2019, with seven banks, which the Kelda Group is obliged to maintain to cover operating and maintenance costs and its debt service obligations. The total facilities reduced from £279 million to £274 million.

Total borrowings of the group, were £5,551.6 million as at 31 March 2019 (2018: £5,335.0 million). Net debt (total borrowings net of cash in hand and at the bank) was £5,500.1 million at 31 March

2019 (2018: £5,293.8 million). The maturity profile of our borrowings and further detail on net debt are set out in note 14 of the Financial Statements.

£450 million of debt financing has been raised in accordance with our Sustainable Finance Framework, including a £350 million, 22 year bond issued in April 2019.

As at 31 March 2019, Yorkshire Water's Regulatory Capital Value (RCV), which is one of the critical components for setting customers' bills, was £6,686.6 million (2018: £6,446.3 million).

Gearing (being net debt as a percentage of RCV) is a key covenanted ratio within Yorkshire Water's financing arrangements and levels of gearing are monitored and forecast on a regular basis. On a covenanted basis at 31 March 2019 Yorkshire Water Financing Group's gearing was 76.6 % (2018: 75.6 %). The movement in gearing during 2018/19 reflects the impact of exceptional costs resulting from exceptional weather conditions and the annual rate of inflation, as measured by the Retail Price Index, falling to 2.4% at March 2019.

Managing financial risk

The operation of the Treasury team is governed by policies and procedures, which set out guidelines for the management of interest rate risk, foreign exchange risk, exposure to fluctuations in the rate of inflation and the use of financial instruments. We actively maintain a broad portfolio of debt, diversified by source and maturity, designed to ensure we have sufficient funds available for operations. Treasury policies and procedures are incorporated within our financial control procedures.

The long-term sustainability of the company's financing is of primary importance. We frequently monitor levels of debt and associated measures, such as gearing. These are forecast not just against levels defined in our financing documents, but also against levels needed to protect our credit ratings. These take account of future expectations and stress-case scenarios relating to future business performance, future regulatory price determinations, economic conditions and market conditions, not just over the current regulatory price review period, but also future price review periods. We have provided more information about our credit ratings below.

Our leadership team receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

Our operations expose us to a variety of financial risks that include the effects of changes in debt and loan market prices, inflation, liquidity, interest rates and exchange rates. Derivative financial instruments, including cross currency swaps, interest rate swaps, and forward currency contracts are employed to manage the interest rate and currency risk arising from the debt instruments used to finance our activities.

Our revenues are closely linked to the underlying rate of inflation, currently measured by the Retail Price Index (RPI) and fluctuate with changes in the rate of inflation. In the absence of any management action, negative inflation could potentially lead to a breach of gearing limits. This risk is mitigated by Yorkshire Water maintaining levels of inflation linked debt and being a counterparty to inflation linked swaps.

Interest received is based on the six-month London Interbank Offered Rate (LIBOR), and interest is paid at fixed amounts plus Retail Price Indexation (RPI). Movements in RPI are also applied to inflation linked debt by increasing the amount to be repaid at maturity. Therefore, the impact of RPI reductions on income and RCV is mitigated by reduced interest charges and lower value of inflation linked debt used in calculating gearing as a percentage of RCV.

The maturity dates of the group's portfolio of inflation linked swaps ranges from 2026 to 2063. In July 2018, the group completed a transaction to restructure swaps with a notional value of £374.1 million. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5 million and to increase interest receivable by £10 million for two years, £5 million received semi-annually from August 2018, and to reduce net interest by £21.1 million for ten years, with £10.6 million received on a net basis semi-annually from August 2020.

In March 2019, the group completed an inflation swap transaction with a notional value of £225.5 million, which results in a bespoke RPI floor from Yorkshire Water to its bank counterparty for the period from 2021 to 2048. The terms of this swap match those of an existing swap with the same counterparty, thereby allowing both parties to reduce their counterparty exposures.

With long-term expectations of LIBOR at continuing low levels, the swaps held by the company gave rise to a negative fair value at 31 March 2019 of £1,892.2 million (2018: £1,691.4 million). See note 20 of the Financial Statements for more details on the financial derivatives held by the company.

Other financial risk includes our exposure to commodity price risk, especially energy prices. We aim to manage this risk by fixing contract prices where possible and operating within an energy purchasing policy that is designed to manage price volatility risk. Currently, wholesale energy costs are fixed until 2020 due to action taken in 2015/16 and steps have been taken to start to fix costs in AMP7 with new forward contracts and hedge transactions for 2020/21.

In addition to the above financial management measures, our Insurance team also works to ensure that we manage and mitigate our exposure to costs from public liabilities and damage to our assets.

Credit ratings

Yorkshire Water Services Limited and its financing subsidiaries have credit ratings assigned by three rating agencies. The latest published ratings are as follows:

Credit rating Agency	Class A rating	Class B rating	Corporate Family Rating	Date of publication *(latest available)*
Fitch	A (negative)	BBB+ (negative)	N/A	February 2019
Moody's	Baa1 (negative)	Ba1 (negative)	Baa2 (negative)	February 2019
S&P	A- (stable)	BBB (stable)	N/A	May 2019

On 22 May 2018, Moody's issued an update for the water sector following an Ofwat consultation published on 26 April 2018. This consultation included finance cost sharing proposals particularly relevant to companies with gearing more than 60% of RCV. Whilst Moody's amended the outlook for four UK water groups from stable to negative, there was no change to the Corporate Family Rating of Yorkshire Water or the Yorkshire Water Financing Group's Class A and Class B rating.

On 11 February 2019, Fitch published an update without any change to credit ratings but a revision of outlook to negative. The change in outlook reflected Fitch's concerns on Yorkshire Water's financial profile though AMP7 when reviewed against Fitch's rating guidance that had been updated in July 2018.

On 21 February 2019, Moody's published an update of its credit opinion without any change to credit ratings or outlooks.

On 31 May 2019, S&P published an update of its credit opinion without any change to credit ratings or outlooks.

The credit rating reports for all three of the rating agencies that assign credit ratings to Yorkshire Water Services Limited and the other companies within the Yorkshire Water Financing Group can be found on our group website at www.keldagroup.com/investors/.

The Kelda Finance group of companies have credit ratings assigned by two rating agencies. The latest published ratings are as follows:

Credit rating Agency	Company	Senior Secured Rating	Date of publication *(latest available)*
Fitch	Kelda Finance (No.2) Limited	BB+ (negative)	February 2019
S&P	Kelda Finance (No.3) plc	BB- (negative)	May 2019

On 11 February 2019, Fitch published an update without any change to credit ratings but a revision of outlook to negative stating, amongst other things, that Yorkshire Water's recently announced plan to de-lever the operating company through refinancing some of its debt at the holding-company level is credit-negative for Kelda.

On 31 May 2019, S&P published an update of its credit opinion affirming the rating of Kelda Finance (No.3) plc whilst revising the outlook to negative from stable. In its publication S&P stated that, amongst other things, the combination of a potential for additional debt at the Kelda level that will be used to reduce the gearing at the Yorkshire Water, together with a current refinancing risk in relation to the maturity of £200 million bonds, due February 2020, led to S&P revising their outlook.

The credit rating reports for all the rating agencies that assign credit ratings to the Kelda Finance companies can also be found on our group website at www.keldagroup.com/investors/.

Corporation and other taxes

We are committed to acting with integrity and transparency in all tax matters. Our tax strategy and policies require that we:

- Comply with both the letter of UK tax law and its application as it was intended.
- Do not make interpretations of tax law considered to be opposed to the original published intention of the specific law.
- Do not enter into transactions that have a main purpose of gaining a tax advantage.
- Make timely and accurate tax returns that reflect our fiscal obligations to the Government.

We do not use artificial tax avoidance schemes or tax havens to reduce our tax liabilities. Our overseas companies were established for non-tax driven decisions and all active companies in the Kelda Group are wholly and exclusively resident for tax purposes in the UK.

We work openly and proactively with HM Revenue & Customs (HMRC) to maintain an effective working relationship. Each year we provide our tax returns to HMRC and they review our position. In cases which are complex or open to interpretation we work proactively with HMRC to determine the appropriate tax position.

The Kelda Group tax strategy summarises the Group's approach to tax risk management and governance arrangements, and is publicly available at:

www.keldagroup.com/corporate-governance/kelda-group-policies/

Corporation tax

Our corporation tax credit of £25.9m (2018: charge of £19.8m) is mainly due to the non-cash movement in the deferred tax provision.

The deferred tax provision represents the temporary differences between the carrying value of assets/liabilities in the Group's accounts and their tax carrying value in tax returns. This is calculated at the prevailing rate of corporation tax. Differences due to timing will reverse in the future so the provision becomes taxation payable. Other differences are permanent differences as they represent costs or revenue that are not subject to corporation tax.

The 2018/19 and 2017/18 movements are largely due to the effects of:

- differences between the accounting and tax carrying value of capital assets as they are depreciated for accounts purposes at a different rate compared to in the group's company tax returns; and
- changes in the fair value liability of Yorkshire Water's inflation linked swap portfolio (explained below).

Increases or reductions in the fair value liability of Yorkshire Water's inflation linked swap portfolio represent an increase or reduction in the net interest the financial markets expect will be payable on those inflation linked swaps in future years.

Changes to the fair value of the liability are not tax deductible or taxable under UK tax regulations as tax deductions are only available as and when the future interest payments are actually paid.

Whilst the fair value of the inflation linked swap portfolio has a carrying value in the group's accounts, there is no associated tax base as changes in the fair value are not tax deductible. The fair value of the inflation linked swap portfolio can fluctuate significantly and there will be a consequential impact on the deferred tax provision.

A full reconciliation of the group's tax credit for the year is contained in note 8 to the financial statements.

The group continues to believe that it has made adequate provision for current tax and deferred tax liabilities. The ultimate liability for such matters may vary from the amounts provided and is dependent upon HM Revenue & Custom's agreement of the basis on which the group's tax returns are filed. In assessing these tax uncertainties, management is required to make judgements, evaluating the circumstances, facts and other relevant information in respect of the tax position taken together with estimates of amounts that will be necessary to provide. The nature of the group's uncertain tax positions can relate to complex tax legislation that can be open to interpretation. Original estimates are always refined as additional information becomes known. Any uncertain tax positions are assessed using internal expertise, experience and judgement together with assistance and opinions from professional advisors. There are no current material uncertainties.

Our financial performance

	2018/19 performance	2017/18 performance
Revenue Income receivable for services provided	£1,062.6m	£1,010.2m
Operating profit Revenue less operating expenses	£230.6m	£286.1m
Adjusted EBITDA Earnings before interest, tax, depreciation, amortisation *- Reconciled to Operating Profit below*	£570.8m	£589.2m
Net assets	£691.1m	£891.3
Net debt[#1] Borrowings less cash	£5,500.1m	£5,293.8m

[#1] Net debt shown above is as reported in the Financial Statements, which includes accounting adjustments such as fair valuation and discounted cashflow - please see note 20 of the Financial Statements for more details.

Below we explain the highlights of our financial performance, which are consistent with our business plan.

- The increase in revenue to £1,062.6 million (2018: £1,010.2 million) is largely due to the inflationary annual price increase.
- Operating costs are tightly managed. Total costs of £832.0 million (2018: £724.1 million) are in line with plan except for increased operating costs relating to extreme weather conditions experienced during the year, some of which have been classified as exceptional, see below.
- Exceptional costs of £34.4 million are associated with extreme weather conditions experienced during the year, operational mitigation for assets damaged in the 2015 floods, and legal and professional fees incurred in connection with the sale of the non-household retail business. More information can be found in note 5.
- The above movements in revenue and operating costs result in a decrease in adjusted EBITDA to £570.8 million (2018: £589.2m million).
- The net interest payable has increased to £402.3 million (2018: £193.5 million). This was a result of adverse fair value movements. Fair value adjustments total a net £251.3 million expense in 2018/19 (2018: £41.4 million net income). This is largely due to the movement in fair valuation of inflation linked swaps we took out in 2007/08. Please see the “Managing Financial Risk” section above for more detail. The movement is non-cash and has driven a favourable movement in the deferred tax provision of £42.0m, which has increased the tax credit by the same amount.
- We are therefore reporting a loss for the financial year for 2018/19 of £145.8 million (2018: £74.9 million profit). Excluding all exceptional items and fair value movements detailed below, this represents an underlying profit for the financial year of £91.8 million (2018: £45.1 million). A reconciliation between this and the statutory measure can be found overleaf.

- The balance sheet position has worsened year on year, from a net assets position of £891.3m at 31 March 2018 to a net assets position of £691.1m at 31 March 2019. This is driven by the loss made in the year.
- We have revalued infrastructure assets as at 31 March 2019 in line with our accounting policy. This revaluation increased the asset value by £43.9 million which has been reflected in the revaluation reserve (2018: £199.9 million). Please refer to note 12 to the financial statements for more detail.

Adjusted EBITDA is calculated as follows:

	2019 £m	2018 £m
Group operating profit	**230.6**	286.1
Add back exceptional items (note 5)	**34.4**	8.1
Add back depreciation and impairment (note 12)	**294.7**	286.1
Add back amortisation of intangible assets (note 11)	**11.1**	8.9
Adjusted EBITDA	**570.8**	589.2

Underlying profit is calculated as follows:

	2019 £m	2018 £m
(Loss)/profit on ordinary activities before taxation	**(171.7)**	92.6
Add back exceptional items (note 5)	**34.4**	8.1
Add back/(deduct) fair value movements (note 20)	**251.3**	(41.4)
	114.0	59.3
Effects of taxation	**(22.2)**	(14.2)
Underlying profit	**91.8**	45.1

The underlying results exclude exceptional items and fair value derivative movements. Fair value derivative movements are recurring in nature, and as such, are no longer designated as exceptional, however, should be excluded from underlying profit due to their nature and magnitude. Further information on the derivative fair value movements can be found in note 20.

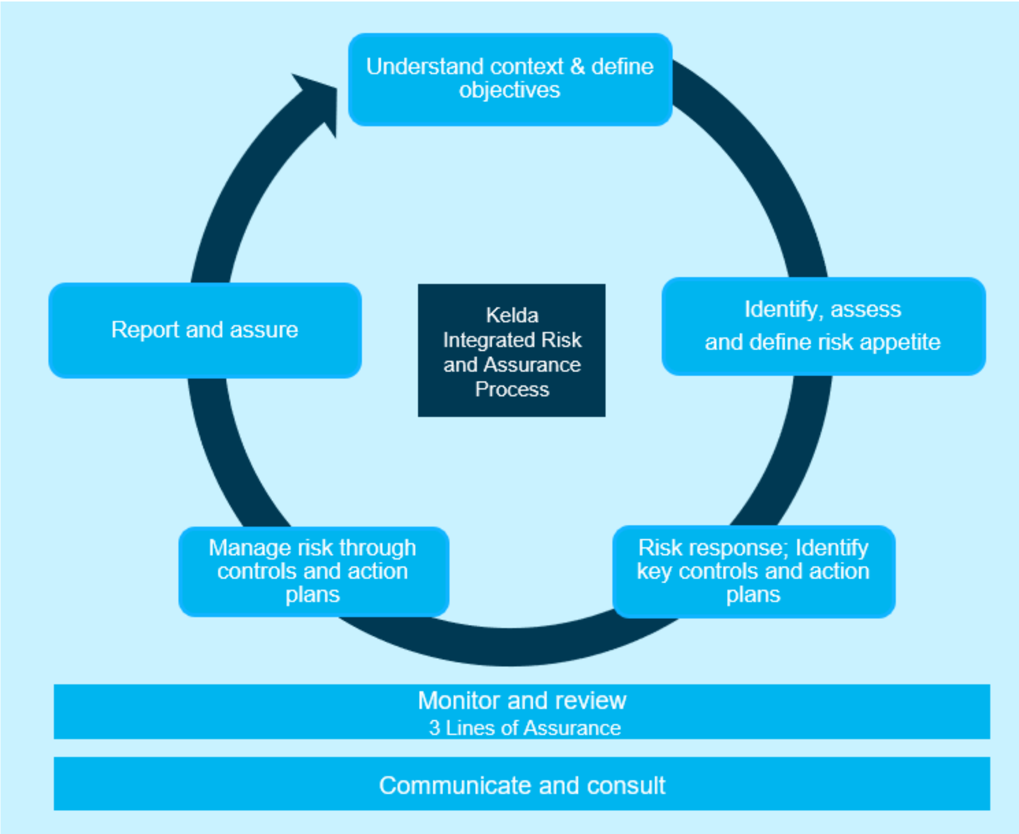
Identifying and managing our risks

Kelda provides a critical service to the 5.4 million people who live in Yorkshire, the millions of people who visit each year as well as 140,000 businesses. Effective risk management is central to ensuring we meet customer expectations all day, every day. Our framework for identifying and managing risk to acceptable levels is embedded in our normal business processes and culture.

Our approach to risk management

Our operating environment is subject to constant and sometimes rapid change. We must be able to respond to this change to maintain customer service and achieve our strategic goals. Our risk management approach is consistent with ISO31000:2018 and applies to all activities, decisions and processes.

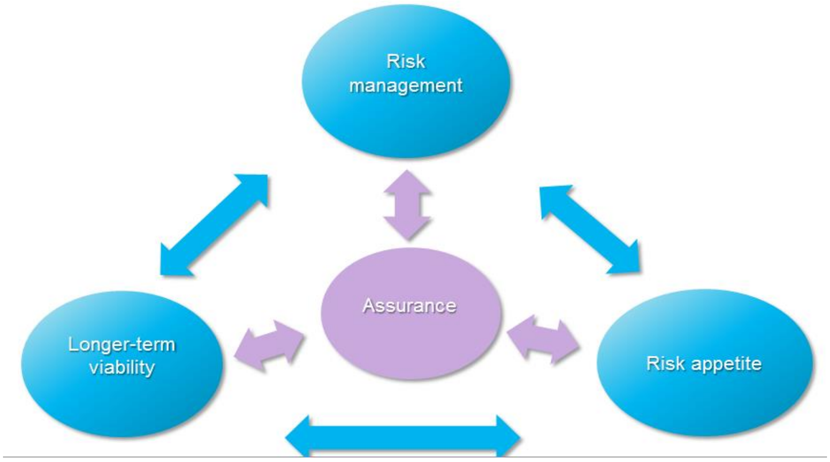
Risk and Assurance Cycle



Risk and assurance process

Set objectives	The board sets our strategic goals and our corporate risk appetite. It balances the cost of control with risk appetite and the long-term viability of the business.
Assessment	Risk identification is embedded in all our operational management systems. A standard risk scoring matrix ensures consistent measurement. Risk owners set the tolerable level of each risk within the corporate appetite. Risk Champions aid escalation.
Response	We tolerate a low residual risk with a strong control environment. Risk action plans manage risk to appetite.
Assure	Our coordinated three lines of assurance assesses the effectiveness of controls and the delivery of improvement plans.
Report	We have a monthly reporting cycle to the risk committee and the Board. Risk reports inform business planning and resourcing decisions.

We balance the cost of control with the risk appetite and the long-term viability of the business.



Corporate risk appetite statement

A clearly defined risk appetite framework is aligned to our business strategy and approach. During 2018/19 the board set a cautious approach to risk taking. This means we tolerated a low residual risk which is well mapped. The integrated risk and assurance across the business confirms that we have a good control environment with a balance of preventative, detective and corrective controls.

As we seek to achieve our Upper Quartile and AMP 7 ambitions, delivering innovative solutions to working efficiently, we are prepared to be more open to financial or service risk for short-periods, with strong assurance in place.

Kelda's risk appetite by risk impact category

Impact	Appetite
Health and safety	We recognise the inherent water industry health and safety risk and are only prepared to tolerate risks that have been reduced to levels as low as reasonably practicable in line with Health and Safety Executive guidance.
Value	We have no tolerance of any risk that may result in a breach of covenanted ratios. We will maintain the headroom agreed by the board.
Service	We will achieve performance that results in no net financial loss over the AMP and maintains our cautious appetite on reputation. We put maintaining customer service at the heart of our risk management.
Reputation	We want to be best in class, respected across the industry and region. We will only tolerate one-off or occasional national media, stakeholder, regulator or customer criticism over the achievement of objectives.
Compliance	We will be compliant with our statutory and regulatory obligations, only tolerating one-off, planned breaches in the pursuit of guaranteed improvement in compliance.
People	We strive to create a positive environment, to attract and retain the right skills. Effective engagement helps maintain productivity. We will tolerate a medium-term impact on business performance but no disruption to customer service due to a breakdown in employee relations or loss of critical skills.

Our principal risks at March 2019

Our principal risks are those individual or aggregated risks which have the potential to threaten viability or take the business significantly beyond risk appetite, some of which are beyond our control. The number of principal risks identified has reduced from 14 in March 2018 to 12 in March 2019. This is due to the maturity of action plans put in place to improve our compliance with specific obligations in relation to the General Data Protection Regulations (GDPR) and the Competition Act. These remain corporate risks, managed by leadership teams.

This year has also seen significant extreme weather events and a volatile political environment continue to drive a heightened risk profile. In particular there has been an escalation in two principal risks:

- Customer experience and stakeholder trust has heightened this year, due to the business readiness work required to meet our Ofwat AMP7 commitments. The new Customer Experience team led by our director of customer experience are managing the transformation required to mitigate this risk.
- The attraction and retention of key talent, particularly STEM skills is a risk across the whole water sector.

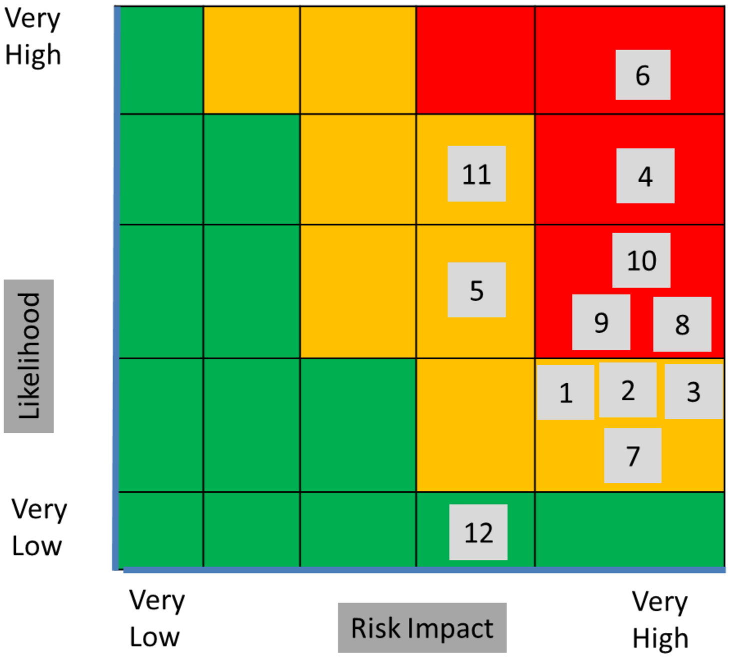
Details of the principal risks as at 31 March 2019 are on pages 45 to 50. Of note, all red risks identified have comprehensive action plans in place; with oversight and review provided directly by Kelda's risk committee to assure delivery to appetite.

This list is not exhaustive and there may be risks and uncertainties of which we are currently unaware, or which are believed to be immaterial, that could have an adverse effect on the business.

This table shows the level of risk after mitigating controls have been applied at 31 March 2019.

	Principal risk summary	*2017*	*2018*	*2019*
1	Public and colleague safety and wellbeing			
2	Enough clean, safe drinking water			
3	Leakage			
4	Protect our environment: Flooding and Natural Capital			
5	Climate change and resilience			
6	Customer experience and stakeholder trust			
7	Financial sustainability			
8	Security, cyber and data resilience			
9	Talent, culture, succession and retention			
10	Organisational transformation			
11	Political, legal and regulatory change: EU-exit, Loss of Legitimacy			
12	Open and transparent governance	New		

Kelda's principal risk heat map by current risk level at 31 March 2019.



The heat map plots Kelda's principal risks by impact and probability. Kelda assesses the impact of risk on six key measures for the business: the health and safety of our colleagues, the quality and continuity of service provision, financial stability, our reputation, compliance with our obligations and the ability to attract and retain great colleagues. Likelihood is an assessment of the time period in which a risk may materialise. Those with a higher likelihood are considered to happen sooner unless mitigation is put in place.

More detail of our plans to manage risk to appetite is noted against the principal risks in the table overleaf.

Assurance and oversight of risks

Our integrated assurance approach provides management with a clear view on whether the control framework effectively mitigates risk to the accepted level. Our Risk and Assurance teams work together across the three lines of assurance to ensure that there is adequate, proportionate coverage across the whole control environment, including all corporate risks. The outcome from this integrated assurance is reported to the risk owners and the relevant committees to inform decision making. It helps senior managers understand our true risk profile, current levels of control and increasingly the culture in our business.

Our principal risks

Principal risk	Change (from March 2018)	Customer Outcomes	Treatment plans	Assurance
1. Public and colleague safety We may fail to protect the safety, health and wellbeing of our customers, colleagues and contract partners, leading to harm. Risk rating - AMBER	This risk is being actively managed through the Health and Safety Improvement Plan, the focus on asset and process safety continues and the embedding of corporate policy and procedures linked to the Life-Saving Rules.	We provide you with water that is clean and safe to drink.	• ISO 18001 certified Occupational Health and Safety (OH&S) Management System is supported by a suite of policies and management procedures. • OH&S improvement programme: eight work streams driving a stepped change in our assets and practices. • Ten Life-Saving Rules have been rolled out across the whole business. • Health and Safety Fair Culture training for all colleagues, to embed a dynamic approach to learning and improving the safety of our processes. • Safety, health and environment committee (SHE) monitors performance to target using a detailed scorecard. • The refreshed Health, Safety and Well-being strategy and supporting structure is embedding of best practice health, safety and well-being policies and procedures.	SHE committee oversee the management of health and safety risks. Internal Audit test the effectiveness of second line assurance. External auditors test ISO compliance. Health and Safety specialist team and Asset Integrity team test on-going compliance with good practice policy and procedures through a coordinated programme of inspections and audits. Delivery of the Health and Safety Improvement Plan is assured by the Programme Management Office (PMO).
2. Enough clean, safe drinking water We supply enough clean, safe water to meet the demand of Yorkshire consumers each day. Risk rating - AMBER	Although this risk remains high it has reduced due to the impact of sustainable improvements we have delivered through capital schemes. We continue to monitor the impact of the weather on water supply daily and use our grid system and	We provide you with water that is clean and safe to drink.	• Our flexible grid network. • Water Resources Allocation Planning (WRAP) with detailed monitoring of demand and supply. • Drinking water safety planning. • Asset operation and maintenance plans available and followed for strategic assets. • ISO 9001 and 14001 certified operational policies and procedures are followed. • On-going resource and asset availability monitoring and response. • Engineering Reliability programme to support proactive maintenance. • PR19 Resilience Framework and central control capability to enable effective emergency planning, response and recovery.	External accreditors test and certify ISO 9001 and 14001 compliance and assure our outturn performance. Internal Audit tests the design and operation of control framework. The independent water quality sample inspection regime tests the safety of the water supply. Water Service Delivery Compliance team assures the policies and procedures and test compliance. The Asset Integrity team assures the asset operation and maintenance plans. The Capital Programme PMO assures capital investment.

	abstraction permits to manage this risk.			
3. Leakage *We may not achieve our short and medium-term objectives to reduce our leakage.* *Risk rating - AMBER*	*We have separated this from "Enough safe, clean drinking water" to reflect the business focus on achieving stretched improvement in our performance over the next two years.*	*We make sure you always have enough water.*	• *ISO 9001 Quality Management and 14001 Environmental Management certified operational policies and procedures are followed.* • *Leakage management plan and monitoring.* • *Real time data analysis to support targeted leakage resolution.* • *Increased investment in new ways of working and resources to find and resolve leaks.*	*External accreditors test and certify ISO 9001 and 14001 compliance and assure our outturn performance.* *Internal Audit tests the design and operation of control framework.* *Water Service Delivery Compliance team provides assurance that process and procedures are followed.*
4. Protect our environment: flooding *We may cause harm to the water environment through unsafe abstraction or discharge leading to pollution, or we fail to manage our substantial land holdings to minimise our carbon impact.* *Risk rating - RED*	*Whilst the risk of widespread flood inundation remains a significant threat across Yorkshire, we continue to drive mitigation through our sector leading carbon management and innovation programmes.* *We continue to learn from pollution events*	*We protect and improve the water environment.* *We take care of your waste water and protect you and the environment from sewer flooding.*	• *9001 Quality Management and 14001 Environmental Management certified environmental and operational policies and procedures are followed.* • *Pollution incident reduction plan.* • *Land, coast and river management programmes.* • *Bio-resources plan.* • *Asset operation and maintenance plans available and followed for strategic assets.* • *Investment programmes in waste water treatment, networks and bathing waters.* • *Investment in water efficiency and treatment.* • *Carbon accounting and reduction initiatives are embedded.*	*External accreditors test and certify ISO 9001 and 14001compliance and assure performance outturn.* *Internal Audit tests the design and operation of control framework.* *Waste Water Service Delivery Compliance team provides assurance that process and procedures are followed.* *The Asset Integrity team assures the asset operation and maintenance plans.* *The capital programme PMO assures capital investment.*

	to improve the impact of our discharge to the water environment.			
5. Climate change and resilience *We may fail to plan ahead to ensure that we can maintain essential services into the future fail to deal with the impacts of population growth, climate change and extreme weather conditions.* *Risk rating - AMBER*	*We have clarified our 25-year strategy and are developing sector leading plans, optimising innovative partnership solutions.*	*All outcomes*	• *The Business Resilience and Integrated Management System teams are leading the introduction of BS65000 Organisational Resilience compliance to embed resilient policies and procedures across the business.* • *The development and roll-out of Yorkshire Water resilience framework.* • *Climate change strategy and WRAP.* • *Investment programme improving water efficiency and flood risk management.* • *Bio-resources plan improving renewable energy generation.* • *Innovation programme led by the Asset Management team is introducing energy efficient technology.* • *Insurance.* • *Collaboration with Local Resilience Forum and other partnerships to develop resilient ways of working.* • *PR19 Resilience Framework and central control capability to enable effective emergency planning, response and recovery.*	*External auditors are supporting the achievement of the British Standard compliant policies and procedures.* *Internal Audit tests the design and operation of the control framework.* *The Capital Programme PMO assures capital investment.* *The Asset Strategy and Planning team assures the design and build of assets meets our future needs and quality standards.*
6. Customer experience and stakeholder trust *We do not consistently meet the expectations of our customers by failing to deliver on our commitments.* *Risk rating - RED*	*We continue to consult our customers to understand what they expect and prioritise the quality of service delivery.*	*We provide the level of customer service you expect and value.*	• *Customer Forum and online Customer Panel consultation drives our strategy and plans.* • *Achieving outcomes for customers is the focus of our transformation plans and our performance management and prioritisation processes.* • *Our operational policies and procedures align to the achievement of customer service objectives.* • *The Company Monitoring Framework ensures we report clearly, openly accurately with our customers.* • *Significant capital schemes are delivering improvements in service to specific risk areas such as Hull, Sheffield and Beverley.*	*The social value committee oversees the management of risks to customer service.* *External auditors test compliance with our customer service policies and procedures.* *Internal Audit tests the design and operation of the control framework.* *Data analytics provides live assurance over compliance with policies and procedures.* *Regulation, Water and Waste Water Service Delivery and Loop assurance teams test compliance with agreed policy and procedure.*

7. Financial sustainability *We fail to manage the effects of changes to debt market prices, interest rates, revenue and competition to achieve financial resilience.* *Risk rating - AMBER*	*In addition to strong business as usual financial controls, restructuring programmes are delivering improvements in our financial resilience, thereby reducing this risk.*	*We keep your bills as low as possible.*	• *The annual business plan and budget is set in the context of our five-year AMP.* • *Finance Business Partners provide consistent budget monitoring through the year.* • *The board investment committee oversees all capital expenditure in line with the approved five-year plan.* • *The financial policies, procedures and control framework are set out on our internal intranet for colleagues* • *Financial restructuring programmes are providing headroom, to support resilience.* • *Arrangements are in place to support customer affordability and managing customer debt.* • *The General IT Control Framework automates and embeds financial controls including the segregation of duties and access.*	*Risk-focused independent assurance is provided by Internal Audit and our external financial auditors, Deloitte.* *The financial governance group assures financial regulations, standards and procedures.* *The assurance team, and Governance and Compliance team use data analytics and testing to provide assurance over billing, income collection, customer debt management, commercial and procurement controls.* *Compliance with financial controls is monitored by management through authorisation procedures and reconciliations.*
8. Security, cyber and data resilience *We may fail to keep our people, assets and information secure.* *Risk rating - RED*	*We recognise that the security threat is ever present and is volatile. We continue to strengthen our physical, information and cyber controls as well as response plans, and have improved security culture and awareness.*	*We provide the level of customer service you expect and value.*	• *The security forum oversees the development and roll-out of security policies and procedures covering personnel, physical, cyber and information security.* • *Our information security management procedures are ISO27001 (Information Security Management) compliant.* • *The General IT Control (GITC) Framework automates and embeds security controls, particularly over access.* • *A range of physical security controls are in place across all our sites.* • *There is an on-going training, development and communication programme for all colleagues to improve security culture and compliance.* • *A range of information and cyber security projects are further improving the control environment, to achieve GDPR, Network Information Systems Directive (NISD) and other external standards.*	*External financial auditors test and report on our GITCs. Internal Audit, using co-source expertise, tests the design and operation of the control framework.* *The Security Steering Group oversees compliance with policies and procedures.* *ISO 27001 compliance is monitored through the Information Security team.* *External expertise is used to assure the adequacy of policies and procedures and test compliance.* *Compliance is monitored by technical specialist teams using data analytics and real-time assurance techniques.* *The Data Protection Officer oversees development of GDPR compliant policies and procedures, including an inspection programme.*
9. Talent, culture, succession and retention. *Our plans may fail to*	*This risk has*	*All outcomes*	• *Our dedicated HR team set policies and procedures, which are published on our Intranet.* • *The responsible leaders' framework sets core and functional competencies, achievement is monitored via our annual*	*Internal Audit tests the design and operation of the control framework and cultural alignment.* *Our Speak Up (whistleblowing) Policy allows*

ensure we have the talent and culture to achieve our objectives both now and in the future. _Risk rating - RED_	_escalated due to sector-wide challenges in attracting and retaining appropriate skills, in particular science and engineering talent._ _We develop our culture, succession plans and skills to respond to our new ambitions and improve our agility._		_performance management cycle._ • _We have a company-wide approach to succession planning, to identify and sustain our critical skills._ • _Our management and corporate development programmes improve awareness of controls, support our learning culture helping achieve future objectives._ • _Our industry leading approach to incentives and reward is overseen by the remuneration committee._	_colleagues to raise concerns to be investigated directly._ _Our business-wide colleague engagement survey provides assurance over colleague trust and culture._ _The HR team uses data analytics to test compliance with HR policies and assures our capacity and capability._
10. Organisational transformation _We may fail to achieve the transformation required to deliver our customer expectations._ _Risk rating - RED_	_This principal risk reflects the extent of our ambitions and the organisational transformation required to achieve them._	_We keep your bills as low as possible._	• _The Yorkshire Water Leadership Team oversees the delivery of the portfolio of change, prioritising resource to manage risk._ • _There is an integrated programme of change initiatives_ • _The corporate approach to programme management sets a standard control framework._ • _Performance management processes throughout the business support the delivery of change._	_Internal Audit tests the design and operation of portfolio and programme management controls._ _The PMO provides assurance over individual transformation programmes, including Gateway reviews. The Enterprise Portfolio Management team provides overarching assurance over our transformation programme._ _A range of external partners are engaged to provide assurance over the achievement of corporate change initiatives._
11. Political, legal and regulatory change _We may fail to adapt quickly to externally driven_	_This principal risk recognises the changing political_	_All outcomes._	• _Stakeholder relationships with our regulators provides an early view of regulatory and legal change._ • _Our network of legislation champions helps senior managers ensure business processes are compliant with statutory and regulatory obligations._ • _A suite of cross-business training and development_	_A programme of internal and external audits tests the design and operation of controls to achieve compliance._ _The Regulation team monitors the compliance with our regulatory obligations._

political and regulatory change. *Risk rating – AMBER*	*environment facing the Water Industry and the UK. This includes our comprehensive response to EU-Exit and the threat of Municipalisation.*		*promotes awareness of new obligations.* • *Emergency Planning and board led response to EU exit no deal planning. Weekly national level water sector updates to central government.* • *Directors have been working nationally with Water UK and peer companies to respond to the legitimacy / municipalisation challenge by developing a national framework for a social contract for the sector.*	*Our risk and controls self-assessment requires all senior leaders to assure awareness of, and compliance with, our statutory and regulatory obligations, developing action plans to improve areas of weak compliance.*
12. Open and transparent governance *Our processes and actions may not be transparent.* *Risk rating - GREEN*	*This risk recognises our clear AMP7 ambitions.*	*All Outcomes*	• *The Open Data programme sets our approach to data sharing and is aligned to both information security and GDPR control frameworks.* • *The Company Monitoring Framework ensures we report clearly, openly accurately.* • *Data governance and data quality policies and procedures are set out on our Intranet.*	*Internal Audit tests the design and operation of the data governance and quality control framework.* *External auditors (Deloitte and Jacobs) review the Annual Performance Report and Annual Report and Financial Statements.*

Assuring the quality of this Strategic Report

Our assurance for this Strategic Report comes from several sources and is a year-round activity. We have used our best practice risk-based 'three levels' approach. By mapping our assurance activities into three levels, we make sure that sufficient assurance is provided at the right time. A description of the levels of assurance is provided below.

Level 1 - Business operations
This is provided from controls in our front-line operations. It takes place throughout the year. We regularly review our processes, systems and controls to ensure accurate reporting. It includes having the right people in the right roles, who are responsible for delivering a service, for example our named data providers and data managers. The value of this assurance is that it is timely and comes from the business experts who understand the performance and the challenges faced.

Level 2 - Oversight functions
This comes from oversight teams with specialist knowledge, such as our Finance, Regulation and Legal teams. This assurance is separate from those who have responsibility for delivery. The value of this assurance is that those involved will review information for technical accuracy, compliance and against wider company expectations.

We have a formal monthly reporting process for data relating to our Performance Commitments, and a quarterly process for our other commitments.

Level 3 - Independent assurance
This is carried out by independent assurance providers who operate to professional and ethical standards. This means they will form their own conclusions on the information and evidence they review. The value of this assurance is that it is independent of line management and organisational structure.

The contents of this Strategic Report have had the following independent assurance:

- Our Internal Audit team have completed a financial and regulatory accounting audit on the controls in place for financial accounting, for example reconciliations. Internal Audit have also reviewed the reported performance on our Performance Commitments and our Customer Outcomes.
- Our external technical auditor, Halcrow, has reviewed the stated position on our Performance Commitments to confirm accuracy and completeness.
- Our external financial auditor, Deloitte LLP, has reviewed the financial information to confirm there is no material inconsistency with the financial statements.

You can find our Assurance Plan on our website at this link:
www.yorkshirewater.com/discoverwater

The Strategic Report was approved by a duly authorised committee of the Board of directors on 26 July 2019 and signed on its behalf by:

E M Barber
Director
26 July 2019

Corporate Governance Report

Throughout the year the Board remained accountable to the Group's shareholders for maintaining standards of corporate governance.

Kelda Finance (No.1) Limited is part of the Kelda Holdings Limited group of companies. All corporate governance relating to the Kelda Holdings Limited group is detailed in the Annual Report and Financial Statements of that company, which can be found on our website.

The Board of directors

The Board held meetings when it is considered appropriate or where business needs required. The Board held seven meetings during the year.

At the end of the year, the Board comprised three directors.

Elizabeth (Liz) Barber
Richard Flint
Kathy Smith (appointed 8 October 2018)

Internal control and risk management

The board is responsible for the group's internal control systems and for reviewing their effectiveness. The board confirms that procedures providing an ongoing process for identifying, evaluating and managing the principal risks and uncertainties faced by the group have been in place for the year to 31 March 2019 and up to the date of approval of the Annual Report and Financial Statements (ARFS) and are regularly reviewed by the Board. The group has a comprehensive and well-defined risk management policy, including control policies, with clear structures, delegated authority levels and accountabilities, described in pages 45-50 within the Strategic Report. The process is designed to manage rather than eliminate the risk of failure to achieve business objectives. The process can only provide reasonable, not absolute, assurance against material misstatement or loss. The Kelda Holdings Group Risk Committee monitors the overall level of risk, the quality of control frameworks and the delivery of action plans to bring risk in line with appetite. In relation to financial reporting, the systems of risk management and internal control include an accounting policy manual and an established system of accounting processes, including management monitoring and review.

In 2018/19 the group has reviewed the effectiveness of its risk management process, to ensure that it is comprehensive, integrated, proactive and based on constant monitoring of business risk. All risks are managed at the appropriate level through the risk register hierarchy and stated controls, owners and action plans where necessary. The key features of the process include the following:

- The key risks facing the group are identified through a clear risk assessment matrix, and recorded in the corporate risk register.
- The risk committee reviews all movements in strategic risk as well as considering the adequacy of the controls in place to mitigate strategic risks to risk appetite.
- Risk registers are maintained by individual business units, with clear allocation of management responsibility for risk identification, recording, analysis and control.
- Risk assessment is completed with use of strategic risk impact and probability scales and results plotted to enable prioritised action.
- Key risk indicators are used to monitor changes in risk position.
- The risk committee reviews the group's strategic risk position.
- A risk review is conducted with the Kelda Management Team (KMT) and the Board using a PESTLE analysis (political, economic, social, technological, legal and environmental) at least annually.
- The Kelda Holdings Audit Committee reviews and monitors the effectiveness of the risk management process, systems, controls and resources on behalf the group.
- Delivery of the risk based Internal Audit plan provides independent assurance to Audit Committee and senior leaders.

The Audit Committee has considered the control environment and control activities which the board can rely on for disclosures in this report. During the reporting year, the Committee has also acted on behalf of the group to review the effectiveness of:

- Risk management: Internal audit conducted by our internal audit co-source partner, KPMG, including materiality assessment and comparison to best practice.
- The effectiveness of internal audit: Monitoring performance against agreed Key Performance Indicators.
- The effectiveness of external audit: Annual questionnaire of key stakeholders allowed tracking of performance against targets.

The Kelda Holdings Audit Committee confirms that it has reviewed the system of internal control. It has received the reports of the Risk Committee and has conducted a formal review covering all controls including financial, operational, compliance and risk management. No significant failings of internal control were identified during these reviews, limited weaknesses were identified, none of which are significant and all have clear action plans to address them in an appropriate time frame.

Directors' Report

The directors present their annual report and the audited consolidated financial statements for the group for the year ended 31 March 2019. The Directors' Report should be read in conjunction with the Strategic Report. The Corporate Governance Report on pages 52 to 53 forms part of this Directors' Report.

Financial results for the year

The loss for the year was £145.8m (2017/18: £74.9m profit).

Dividends

Kelda Finance (No.1) Limited (the company) paid £67.5m (2016: £74.4m) of cash dividends (note 10).

Principal activities

The principal activities of the group are the supply of clean water and the treatment and disposal of waste water. Yorkshire Water Services Limited (Yorkshire Water or YW), the group's regulated utility subsidiary in the UK, is responsible for both water and waste water services.

The principal activity of the company is to be a holding company within the Kelda Holdings Limited group, and is expected to continue to be so for the foreseeable future.

Business review

A review of the development and performance of the business of the group, including strategy, the financial performance during the year, key performance indicators forward-looking statements and a description of the principal risks and uncertainties facing the group are set out in the strategic report on pages 45 to 50.

The purpose of this annual report is to provide information to the group's stakeholders and contains certain forward-looking statements with respect to the operations, performance and financial condition of the Group. By their nature, these statements involve uncertainty since future events and circumstances can cause results to differ from those anticipated. Nothing in this report should be construed as a profit forecast.

Directors

The directors, who served during the year and up to the date of signing of these financial statements, including any changes, are shown below:

Elizabeth (Liz) Barber
Richard Flint
Kathy Smith (appointed 8 October 2018)

The company had directors' and officers' liability insurance in place throughout the financial year and up to the date of approval of the financial statements. By virtue of the articles of association, the company had also provided indemnity for its directors and the secretary, which is a qualifying third party indemnity provision for the purposes of the Companies Act 2006.

Richard Flint

Appointed to the board on 25 June 2012. Richard was appointed Chief Executive of Yorkshire Water in April 2010 and group Chief Executive to the Board of the parent company, Kelda Holdings Limited, in March 2010. He was appointed as Chief Operating Officer in September 2008 and prior to this was Director of the company's water business unit from 2003.

He is Chair of the Business in the Community (BITC) Advisory Board for Yorkshire and the Humber and a member of the BITC Water Taskforce, and a Board member of the water industry trade body, Water UK. Richard was also appointed to the Board of Trustees of Marie Curie early in 2017.

The group has announced that Richard is to retire as Chief Exceutive with effect from 12 September 2019. He will be succeeded in that role by Elizbeth (Liz) Barber.

Elizabeth (Liz) Barber
Appointed to the board on 25 June 2012. Liz was appointed as Director of Finance and Regulation to Yorkshire Water and Group Finance and Regulation Director to the Board of Kelda Holdings Limited in November 2010.

Now Director of Finance, Regulation and Markets, Liz joined the company from Ernst & Young LLP (EY) where she held several senior partner roles, including leading the firm's national water team and the assurance practice across the North Region. Liz had been with EY since 1987 and in that time worked with some of the largest companies in the UK. Liz specialised in delivery of services to the water industry, including several water companies and UK regulators.

Liz is a lay member and trustee of the University of Leeds, and is a Non-Executive Director and Chair of the Audit Committee at KCom plc. Liz is a member of HRH Prince Charles' Accounting for Sustainability network of CFOs, which she chaired for two years.

Employees and employment policies

The group continues to place an importance on ensuring a positive working environment for all colleagues and a culture of open, honest internal communications and feedback. This is also described in the Trusted company section of the Strategic Report. The company values provide the framework for the consistent behaviours expected from colleagues.

Colleague engagement takes place using a range of channels including regular operational 'hubs' covering over 900 operational employees, the intranet, 'Team Talks' and 'Talk Back' sessions with line managers and directors, annual business plan cascades, 'people leader' events to cascade key business performance messages and a bi-annual employee engagement survey. All line managers are encouraged to develop and implement action plans with their teams, taking accountability for developing colleague morale, engagement and trusted relationships.

To further promote successful employee relations, collective bargaining arrangements are in place with the group's recognised trade unions – UNISON, GMB and Unite. In addition, communication and consultation forums take place across the group, comprising elected union and non-union employees meeting on a quarterly basis with directors and senior managers to share performance information and discuss health and safety issues. These meetings also provide an opportunity to seek employee views which can then be taken into account in decision making.

The group is committed to providing a diverse and inclusive working environment which reflects its customer base and is committed to equality and opportunity for all. A director sponsored Diversity and Inclusion working group actively drives progress in this area; ensuring the policy is reviewed regularly, setting targets, monitoring progress and ensuring that the aspirations of the group are being met. The group has three prioritised areas of focus, Ability, Gender and Ethnicity, these key areas help us become a more diverse and inclusive employer and better reflect our customer base. Further details on Championing Diversity for Yorkshire Water, the main group employer, are shown in the 'we understand our impact on the wider environment, and act responsibly,' section of the Strategic Report on page 28.

The group focuses its recruitment activities so that they are attracting colleagues from all walks of life and experiences to encourage even greater innovation and creativity. They proactively identify roles within the business that could be particularly suitable for individuals with disabilities. The group runs an internship in partnership with a local school for students with an autistic spectrum condition where students work in real roles in the business at the same time as gaining a formal qualification. The group is now part of a group leading the role out of an internship programme across the region. The group is a two tick employer and any candidate who considers themselves to have a disability is guaranteed an interview if they meet the essential criteria for the role.

The group has a big role to play in addressing skills shortages, particularly when it comes to the Science, Technology, Engineering and Mathematics (STEM) subjects. The group proactively supports national Women in Engineering week by running a number of events with girls from local schools. The group has invested in a STEM focussed development programme to support our female talent in technical roles and will support 100 females through specific talent development programmes over this asset management period (AMP).

The group aims to attract, select, develop and retain the best talent to meet the needs of the business. There is a strong commitment to developing a pipeline of technical talent and understanding future skills requirements to meet the group's evolving needs. The talent framework is used to discuss aspirations, skills and development needs at all levels. During this AMP the group will recruit 160 apprentices to create a strong pipeline of talent for the future. The group works in partnership with a number of schools across the region to ensure that young people become more employable when they leave school and have a better chance of gaining employment. The group provides a wide range of development tools, including in-house and accredited programmes to help all employees develop the necessary skills, knowledge, values and experience to realise their performance potential. The group also recognises the important role of mentoring and over 150 colleagues are in mentoring relationships either internally or externally.

Key to achieving operational excellence and delivering out-performance is ensuring that every individual understands their role and how they can make a difference while feeling valued for their contribution. The group is committed to rewarding the right performance and provides salary and benefits packages which are designed to be competitive. Performance related pay gives colleagues at all levels the opportunity to share in the success of the business, through quarterly or annual bonus payments linked to the achievement of individual and business plan targets.

Health and safety

Health and safety is discussed in the "we understand our impact on the wider environment and act responsibly," section of the Strategic Report on page 27.

Political donations

The group does not support any political party and does not make what are commonly regarded as donations to any political party or other political organisations. However, the definition of "donations" in the Political Parties Elections and Referendums Act 2000 covers a number of activities, which form part of the necessary relationship between the Group and stakeholders. This includes promoting the group's activities at the main political parties' annual conferences.

As part of its stakeholder engagement programme the group incurred expenditure of £2,000 (2017/18: £5,000) in such activities.

Annual general meeting

The shareholders do not require an annual general meeting to be held, given their representation on the board and therefore the company has dispensed with the requirement to hold an annual general meeting.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are described in the Strategic Report.

Kelda Finance (No.1) Group has available a combination of cash and committed undrawn bank facilities totalling £590.6m at 31 March 2019 (2017/18: £690.2m). The directors have considered the five year business plan and the cash position of the Group, specifically the sufficiency of the funds available to fund the operating and capital investment activities of the Group for the 12 months from the date of signing the financial statements. In addition, Yorkshire Water Services Limited has an indefinite licence to operate as a water and sewerage operator terminable with a 25-year notice period. As a consequence the directors believe that the Group is well placed to manage its business risks successfully.

The directors have a reasonable expectation that the group has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the financial statements. For this reason, they continue to consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Independent auditors

The auditors, Deloitte LLP, have indicated their willingness to continue in office and the board has passed a resolution confirming their reappointment.

Disclosure of information to auditors

Each director in office at the date of this report confirms that:

- So far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and
- Each director has taken all the steps as he or she ought to have taken as a director in order to make him or herself aware of any relevant audit information, and to establish that the company's auditors are aware of that information.

The confirmation is given and should be interpreted in accordance with the provisions of s148 of the Companies Act 2006.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 *Reduced Disclosure Framework* (FRS 101). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards, including FRS 101 have been followed, subject to any material departures disclosed and explained in the group and parent company financial statements respectively; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors' report was approved by a duly authorised committee of the board of directors on 26 July 2019 and signed on its behalf by:

Liz Barber
Director
26 July 2019

Registered address: Western House, Halifax Road, Bradford, BD6 2SZ, United Kingdom

Independent auditor's report to the members of Kelda Finance (No.1) Limited

Report on the audit of the financial statements

Opinion
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework" and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Kelda Finance (No.1) Limited (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement;
- the statement of accounting policies;
- the related notes 1 to 28 of the group accounts; and
- the related notes 1 to 6 of the parent company accounts.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information
The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

J Boardman.

Jane Boardman (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Leeds, United Kingdom
26 July 2019

Consolidated statement of profit or loss
for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Revenue	*3*	**1,062.6**	1,010.2
Operating costs before exceptional items	*4*	**(797.6)**	(716.0)
Exceptional items	*5*	**(34.4)**	(8.1)
Total operating costs		**(832.0)**	(724.1)
Operating profit from continuing operations		**230.6**	286.1
Finance income before fair value income		**123.9**	104.4
Fair value income		**41.8**	115.4
Finance income	*7*	**165.7**	219.8
Finance costs before fair value costs		**(274.9)**	(339.3)
Fair value costs		**(293.1)**	(74.0)
Finance costs	*7*	**(568.0)**	(413.3)
(Loss)/profit from continuing operations before taxation		**(171.7)**	92.6
Tax credit/(charge)	*8*	**25.9**	(19.8)
(Loss)/profit for the year from continuing operations		**(145.8)**	72.8
Profit from discontinued operations net of tax		**-**	2.1
Total (loss)/profit for the year		**(145.8)**	74.9

The notes on pages 67 to 128 form an integral part of the financial statements.

Consolidated statement of comprehensive income/(expense)
for the year ended 31 March 2019

	Note	2019 £m	2018 £m
(Loss)/profit for the year		**(145.8)**	74.9
Other comprehensive income/(expense)			
Items that will not be reclassified to profit or loss:			
Gains on revaluation of assets before taxation	*12*	**41.0**	199.6
Taxation on revaluation of assets	*8*	**(7.0)**	(34.0)
		34.0	165.6
Remeasurements of post-employment benefit obligations:			
Remeasurement of employer funded retirement benefit scheme before taxation (EFRBS)		**(0.5)**	0.2
		(0.5)	0.2
Other comprehensive income for the year, net of tax		**33.5**	165.8
Total comprehensive(expense)/income for the year		**(112.3)**	240.7

Consolidated statement of financial position
as at 31 March 2019

	Note	2019 £m	2018 £m
Non-current assets			
Intangible assets	11	**124.2**	68.5
Derivative financial assets	20	**117.8**	88.2
Property, plant and equipment	12	**7,850.0**	7,603.9
Trade and other receivables	13	**1,150.3**	1,191.6
		9,242.3	8,952.2
Current assets			
Inventories		**3.1**	3.0
Trade and other receivables	13	**250.2**	168.0
Tax assets		**2.4**	-
Cash and cash equivalents	14	**51.5**	41.2
Assets held for sale	15	**-**	58.5
		307.2	270.7
Total assets		**9,549.5**	9,222.9
Current liabilities			
Trade and other payables	16	**(353.1)**	(336.9)
Deferred contributions on depreciated assets	17	**(11.0)**	(10.0)
Borrowings	14	**(862.1)**	(279.9)
Liabilities associated with assets held for sale	15	**-**	(6.4)
		(1,226.2)	(633.2)
Non-current liabilities			
Trade and other payables	16	**(5.0)**	(5.6)
Deferred contributions on depreciated assets	17	**(455.6)**	(433.5)
Borrowings	14	**(4,689.5)**	(5,055.1)
Financial liabilities	20	**(2,094.7)**	(1,779.6)
Provisions for other liabilities and charges		**(0.4)**	(0.4)
Deferred income tax liabilities	18	**(387.0)**	(424.2)
		(7,632.2)	(7,698.4)
Total liabilities		**(8,858.4)**	(8,331.6)
Net assets		**691.1**	891.3
Equity attributable to owners of the parent			
Equity shares	19	**-**	-
Hedging reserve		**-**	-
Revaluation reserve		**639.8**	605.8
Accumulated profits		**51.3**	285.5
Total equity		**691.1**	891.3

The financial statements on pages 61 to 128 were approved by a duly authorised committee of the board of directors on 26 July 2019 and signed on its behalf by:

E M Barber

Director
26 July 2019

Kelda Finance (No.1) Limited
Registered in England no. 08066326

Registered Address:

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Consolidated statement of changes in equity
as at 31 March 2019

	Note	Hedging reserve £m	Revaluation reserve £m	Accumulated profit £m	Total equity £m
At 1 April 2017		(13.2)	440.6	297.6	725.0
Result for the year		-	-	74.9	74.9
Dividends paid	10	-	-	(74.4)	(74.4)
Transfer between reserves		13.2	(0.4)	(12.8)	-
Revaluation of fixed assets before taxation		-	199.6	-	199.6
Income tax on revaluation of fixed assets		-	(34.0)	-	(34.0)
Revaluation of employer funded retirement benefit scheme		-	-	0.2	0.2
Balance at 1 April 2018, as reported		-	605.8	285.5	891.3
Adjustment from adoption of IFRS 9 net of tax		-	-	(20.4)	(20.4)
Balance at 1 April 2018, adjusted		-	605.8	265.1	870.9
Result for the year		-	-	(145.8)	(145.8)
Dividends paid	10	-	-	(67.5)	(67.5)
Revaluation of fixed assets before taxation		-	41.0	-	41.0
Income tax on revaluation of fixed assets		-	(7.0)	-	(7.0)
Revaluation of employer funded retirement benefit scheme		-	-	(0.5)	(0.5)
At 31 March 2019		**-**	**639.8**	**51.3**	**691.1**

Consolidated statement of cash flows
for the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash flow from operating activities	*22*	**510.7**	557.7
Income taxes (paid)/ received		**(11.4)**	0.1
Interest paid		**(233.7)**	(239.0)
Net cash generated from operating activities		**265.6**	318.8
Cash flows from/(used in) investing activities			
Interest received		**117.2**	109.4
Proceeds on disposals of property, plant and equipment		**3.2**	3.0
Purchases of property, plant and equipment		**(553.2)**	(439.0)
Capital contributions		**27.3**	26.9
Net cash used in investing activities		**(405.5)**	(299.7)
Cash flows from/(used in) financing activities			
Dividends paid		**(67.5)**	(74.4)
Borrowings raised		**390.0**	390.0
Repayments of borrowings		**(72.9)**	(322.3)
Repayment of obligations under finance leases and hire purchase agreements		**(10.8)**	(11.0)
Repayment of loan received from parent company		**33.1**	57.2
Amounts paid upon restructure of inflation linked swaps		**(121.7)**	(250.0)
Net cash from/(used in) financing activities		**150.2**	(210.5)
Net increase/(decrease) in cash and cash equivalents		**10.3**	(191.4)
Cash and cash equivalents at the beginning of the year		**41.2**	232.6
Cash and cash equivalents at the end of the year	*14*	**51.5**	41.2

Notes to the consolidated financial statements

for the year ended 31 March 2019

1. Authorisation of financial statements

The group's financial statements for the year ended 31 March 2019 were authorised for issue by the board of directors on 26 July 2019 and the balance sheet was signed on the board's behalf by Liz Barber, Director. Kelda Finance (No.1) Limited is a limited company by shares, incorporated and resident for tax in the UK. The registered office address of Kelda Finance (No.1) Limited is Western House, Halifax Road, Bradford, BD6 2SZ.

2. Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of accounting

The consolidated financial statements of Kelda Finance (No.1) Limited have been prepared on the going concern basis in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, IFRIC interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS as they apply to the financial statements of the group for the year ended 31 March 2019.

The consolidated financial statements have been prepared under the historical cost convention except for certain categories of property, plant and equipment which are held at valuation, and all derivative financial instruments and financial assets which have been measured at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed on pages 80 to 81.

Going concern

The financial statements have been prepared using the going concern basis of accounting. The directors believe that the company has adequate resources to continue in operational existence for the foreseeable future. Therefore, they continue to adopt the going concern basis of accounting in preparing the financial statements. This is discussed further in the Director's Report on page 56.

Basis of consolidation

The group financial statements consolidate the financial statements of Kelda Finance (No.1) Limited and its subsidiaries (see note 25). The results of undertakings acquired or sold are consolidated for the periods from the date of acquisition or up to the date of disposal. Acquisitions of subsidiaries are accounted for under the purchase method of accounting. Associates and joint ventures are accounted for under the equity method of accounting. Intra-group balances, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies

On an individual company basis, individual transactions denominated in foreign currencies are translated into functional currency at the actual exchange rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into functional currency at the rates ruling at the balance sheet date. Profits and losses on both individual foreign currency transactions during the year and monetary assets and liabilities are dealt with in the income statement.

2. Accounting policies *(continued)*

Revenue

Water charges

This revenue stream comprises charges to customers for water, waste water and other services excluding value added tax, and arises only in the United Kingdom.

Revenue is recognised when the performance obligations have been discharged to the customer with respect to the services detailed above, and the amounts receivable in respect of these services are deemed probable of collection. Revenue relates to charges due in the year, excluding any amounts paid in advance. Revenue for measured water charges includes amounts billed plus an estimation of the amounts unbilled at the year end. The accrual is estimated using a defined methodology based upon daily average water consumption, which is calculated based upon historical billing information.

No revenue is recognised for unoccupied properties and no bills are raised. If a bill has been issued, and the company subsequently become aware that the property is unoccupied, the bill and relevant revenue is cancelled. Generally, a property is classed as void if it is unoccupied and unfurnished.

Connection and Infrastructure charges

This revenue stream comprises charges to property developers for the connection of new properties to the water and sewerage network, and charges to property developers to compensate for the additional strain on the infrastructure system. The associated revenue is deferred and recognised over the expected useful life of the network.

Diversions

This revenue stream comprises income for structural alternations to the network. Revenue from diversions was previously recognised within fixed assets, under IFRIC 18. The transition to IFRS 15 has resulted in the reclassification of the revenue and associated costs from fixed assets, to the profit and loss account, with an element of deferred income on the balance sheet. Revenue is recognised over the time it takes to complete the diversion. The nature of this adjustment is set out in note 28.

Net operating costs

Net operating costs include the following:

Rental income

Rental income arising on investment properties is accounted for on a straight line basis over the lease term on on-going leases.

Other operating income

Profit relating to the sale of commercial and residential properties to third parties is included within other operating income, which is part of operating costs.

Finance income

Interest receivable is recognised as the interest accrues using the effective interest method. This is the rate that exactly discounts estimated future cash receipts and payments through the expected life of the financial instrument to the net carrying amount of the financial assets.

Dividends payable

Interim and final dividends payable are recognised once declared.

2. Accounting policies _(continued)_

Research and development expenditure

Research expenditure is written off in the income statement in the year in which it is incurred.

Development expenditure is charged to the income statement, except where the expenditure meets the criteria for recognition as an internally generated intangible asset as outlined in IAS 38 "Intangible assets". Where the recognition criteria are met, intangible assets are capitalised and amortised over their useful economic lives from the date of commissioning.

Taxation

Current tax

Current tax for the current and prior years is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of the current and prior years exceeds the amount payable, the excess is recognised as an asset. The benefits relating to a tax loss that can be carried back to recover current tax of a previous year are held as an asset.

Deferred tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes with the following exceptions:

- where the deferred income tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date, and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

- Current and deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly in equity in which case the current or deferred tax is reflected in equity.

2. Accounting policies _(continued)_

Discontinued operations

A discontinued operation is a component of the group's business, the operations and cash flows of which can be clearly distinguished from the rest of the group and which:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single, co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary acquired exclusively with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale under IFRS 5:

- Management is committed to a plan to sell;
- The asset is available for immediate sale;
- An active programme to locate a buyer has been initiated;
- The sale is highly probable, within twelve months of classification as held for sale;
- The asset is being actively marketed for sale at a sales price reasonable in relation to its fair value; and
- Actions required to complete the plan indicate that it is unlikely that plan will be significantly changed or withdrawn.

When the operation is classified as a discontinued operation, the comparative statement of profit and loss and statement of comprehensive income/(expense) is re-presented as if the operation had been discontinued for the start of the comparative year.

Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the group's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on measurement are recognised in profit or loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated and any equity accounted investee is no longer equity accounted.

Goodwill and intangible assets

Goodwill represents the excess of the fair value of the consideration paid for a business over the fair value of the identifiable assets and liabilities acquired after costs incurred directly in relation to the transaction. Goodwill is capitalised and subject to an impairment review, both annually and when there are indications that the carrying value may not be recoverable.

Other intangible assets

Other intangible assets that are acquired by the group are stated at cost less accumulated amortisation and less accumulated impairment losses.

Amortisation

Software is amortised on a straight-line basis over its useful life. The useful life of software is estimated to be five years.

2. Accounting policies *(continued)*

Property, plant and equipment

Residential properties, non-specialised properties and rural estates held within land and buildings are held at valuation. Infrastructure assets are held at valuation (see note 12). Other property, plant and equipment are included at cost less accumulated depreciation and any provision for impairment.

Freehold land is not depreciated. Depreciation is charged on property, plant and equipment on a straight-line basis over their estimated useful economic lives, or the estimated useful economic lives of their individual major components, from the date of commissioning.

Useful economic lives are principally as follows:

Buildings	25 - 100 years
Plant and equipment	
Fixed plant	5 - 40 years
Vehicles, mobile plant and computers	3 - 10 years
Infrastructure assets	
Water mains and sewers	40 - 125 years
Earth banked dams and reservoirs	200 years

Assets under the course of construction are not depreciated until commissioned.

In the UK regulated water services business, infrastructure assets comprise a network of systems being mains and sewers, impounding and pumped raw water storage, reservoirs, dams and sea outfalls.

Infrastructure assets, residential properties, non-specialised properties and rural estates are held at valuation with the latest valuations performed at 31 March 2019. An interim valuation is recorded in the intervening years if there has been a material change. Residual values and depreciation rates are reviewed on revaluation. On sale of a revalued asset, the revaluation reserve is recycled to the income statement.

In respect of borrowing costs relating to qualifying assets for which the capitalisation date is on or after 1 January 2009, the group capitalises borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset.

Impairment of property, plant and equipment and goodwill

The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. Useful lives and residual values are reviewed annually. Where adjustments are required, these are made prospectively.

Impairment on goodwill is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount is less than the carrying amount, an impairment loss is recognised. When an entity is disposed of, any goodwill associated with it is included in the carrying amount of the operation when determining the gain or loss on disposal.

2. Accounting policies *(continued)*

Accounting for leases

Finance leases

Assets which are financed by leasing agreements that transfer substantially all the risks and rewards of ownership to the lessee (finance leases) are capitalised, at the lower of the fair value of the leased property and the present value of future lease payments, in property, plant and equipment and the corresponding capital cost is shown as an obligation to the lessor in borrowings. Depreciation is generally charged to the income statement over the shorter of the estimated useful life and the term of the lease. The capital element of lease payments reduces the obligation to the lessor and the interest element is charged to the income statement over the term of the lease in proportion to the capital amount outstanding. Any arrangement fees or other direct costs incurred on a finance lease are capitalised and amortised over the length of the lease.

Operating leases

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Lease payments are charged to the income statement on a straight-line basis over the term of the lease.

Government grants and contributions

Government grants and contributions in respect of property, plant and equipment are deferred and credited to the income statement by instalments over the expected economic lives of the related assets. Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with.

Government grants and contributions received in respect of an item of expense during the year are recognised in the income statement on a systematic basis in line with the cost that it is intended to compensate.

Government grants which can be allocated against an individual asset are included as part of the carrying value of the asset. Government grants which cannot be allocated to individual assets are held as deferred income and released to the income statement over the life of the grant.

Investments in joint ventures and associates

The group has several contractual arrangements with third parties which represent joint ventures, these take the form of agreements to share control over other companies. The group recognises its interest in the entity's assets and liabilities using the equity method of accounting.

The group's interest in its associates, being those entities over which it has significant influence and which are neither subsidiaries nor joint ventures, are accounted for using the equity method of accounting.

Under the equity method, the investment in the joint venture or associate is carried in the balance sheet at cost plus post-acquisition changes in the group's share of its net assets, less distributions received and less any impairment in value of individual investments. The group income statement reflects the share of the joint ventures' and associates' results after tax.

Financial statements of joint ventures and associates are prepared for the same reporting period as the group. Where necessary, adjustments are made to bring the accounting policies used into line with those of the group. The group ceases to use the equity method on the date from which it no longer has shared control over or significant influence in the joint venture or associate. Any unrealised gains or losses between the group and its joint ventures and associates are eliminated on consolidation.

Inventories

Inventories are stated at the lower of cost and net realisable value less any provision necessary to recognise damage and obsolescence.

2. Accounting policies *(continued)*

Provisions

Provision is made for self-insured claims incurred but not reported, contracts which are considered onerous, accumulated losses related to associated undertakings and other known liabilities which exist at the year end as a result of a past event.

Provisions are recognised where:

- There is a present obligation as a result of a past event;
- It is probable that there will be an economic outflow to settle; and
- A reliable estimate of this outflow can be made.

Provisions are discounted to present value where the effect is material.

Financial instruments

Financial assets

Financial assets are recognised in relation to public to private concession arrangements to the extent that the group has a contractual right to receive cash of a specified and determinable amount independent of when and how much the service is used and the only risk of non-recovery is credit deterioration of the counterparty. They are measured at fair value through profit and loss.

Cash and cash equivalents

Cash equivalents include short term deposits with original maturity within three months. For the purposes of the consolidated cash flow statement, cash and cash equivalents consist of cash and cash equivalents net of outstanding bank overdrafts held with the same counterparty where there is an unconditional right and intention to offset.

Trade and other receivables

Trade receivables are initially recognised at fair value, and subsequently remeasured at amortised cost, net of any allowance for impairment. Invoices for unmeasured water charges are due on predetermined dates, irrespective of date of receipt. Invoices for measured water charges are billed quarterly in arrears and generally have seven day payment terms.

Provision for doubtful debts

At the date of transition, the directors of the company reviewed and assessed the group's existing trade receivables for impairment using reasonable and supportable information that is available in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Trade and other payables

Trade payables are initially recognised at fair value, and subsequently remeasured at amortised costs.

2. Accounting policies *(continued)*

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at either:

- Amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs; or
- Fair value at the measurement date. The movement in the fair value of the loan or borrowing is recognised in the income statement. The fair values of the borrowings are determined by reference to quoted prices in active markets for identical assets or liabilities that the company can access at the measurement date.

On transition to IFRS 9, the key change in the group's accounting policy for borrowings is to recognise the gain or loss on a non-substantial modification of debt through the profit and loss account, amortised over the life of the financial liability through the effective interest rate. See note 28 for the transition disclosures.

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities or (2) cash flow hedges.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

There has been a change in accounting estimate from the prior year in respect of the valuation of a bond. The bond has a notional value of £250.0m, and was previously priced from a public market. A publicly availably market is no longer available and as such, a net present value calculation has been performed instead. This is reflected in the fair value hierarchy table in note 20, whereby the bond has moved from level 1 to level 2. The fair value movement in the current year is £11.7m.

Cash flow hedge

The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. Any ineffective portion is immediately recognised in the income statement. The gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement. In the event the hedged item is no longer expected to occur or the hedge relationship ceases to be effective, accumulated gains or losses held in the cash flow hedge reserve are immediately recognised in the income statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any such derivative are immediately recognised in the income statement.

There has also been a presentational change in terms of accounting for derivatives. Adopting the 'single line of account' policy under IFRS 13, the RPI uplift on the inflation linked swaps is presented within financial liabilities, where it was previously presented as part of borrowings. The associated accretion was previously included within finance costs on the profit and loss statement, but will now be presented as part of fair value movements.

2. Accounting policies _(continued)_

Employee benefits

Defined contribution scheme

The group operates two defined contribution schemes for those members of staff who are not members of its defined benefit scheme. Two pension plans exist under which the group pays a fixed contribution into a separate entity which operates the schemes. The other provides the employees with a lump sum on retirement. Other than this contribution, the group has no further legal or constructive obligation to make further contributions to the scheme.

Obligations for contributions to the scheme are recognised as an expense in the income statement in the year in which they arise.

Share capital

Ordinary shares are classified as equity.

Exceptional items

Exceptional items are items which derive from events or transactions that individually or, of a similar type, in aggregate fall outside the normal activities, or are material by value. Such items may include, but are not limited to: extreme weather events, the sale of businesses and significant asset impairments.

Fair value estimation

The fair value of any financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cashflows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate and currency swaps is calculated as the present value of the estimated future cashflows. The fair value calculations have been adjusted to incorporate own and counter-party credit risk and funding risk.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

Management base their estimate of discount rate on a consideration of the long term risk free interest rate for the UK, an industry specific risk factor (beta factor), a market risk premium at the date of valuation and a company specific risk factor.

2. Accounting policies _(continued)_

New standards and interpretations

In the current year, the group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2018.

The group applies, for the first time, IFRS 15 'Revenue from Contracts with Customers' and IFRS 9 'Financial Instruments'. The transition disclosures can be found in note 28. The changes to the accounting policies are set out below:

IFRS 15 – Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised, and replaces IAS 18: revenue, and IFRIC 18: transfers of assets from customers.

The principles of IFRS 15 have been applied using the five step model:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when or as the entity satisfies its performance obligations.

Revenue is recognised either when the performance obligation in the contract has been performed ("point in time") or "over time" as control of the performance obligation is transferred to the customer. The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the group's material revenue streams are set out below:

2. Accounting policies _(continued)_

Type of service	IFRS 15 treatment	Nature of change in accounting policy and impacts
Provision of water and waste water services	For the group's main revenue stream the performance obligations are clear, that being the supply of clean water and the collection of waste water. Revenue from these core activities is recognised at a point in time, consistent with previous treatment.	None
New connections and infrastructure charges	Infrastructure charges are intrinsically linked with new connection charges. The infrastructure charge facilitates the provision of water and waste water services, as well as the connection activities, and the ongoing maintenance of the connection. The new connection charge and infrastructure charge on their own are without material value to the customer without the provision of water and waste water services. Revenue from new connections is recognised over the useful economic life of the asset, consistent with previous treatment.	None
Diversions	In some instances, Yorkshire Water is requested to make diversions to the network. Income is received from the requestors. Revenue from diversions activity is recognised over the time taken to complete the diversion.	Revenue was previously recognised within fixed assets, under IFRIC 18. The transition has resulted in the reclassification of the revenue and associated costs from fixed assets, to the profit and loss account, with an element of deferred income on the balance sheet. The nature of this adjustment is set out in note 28.

2. Accounting policies _(continued)_

IFRS 9 – Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

On transition to IFRS 9, the key change in the group's accounting policy for financial instruments is to recognise the gain or loss on a non-substantial modification of debt through the profit and loss account, amortised over the life of the financial liability through the effective interest rate. The nature of this adjustment is set out in note 28.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

As at 1 April 2018, the directors of the company reviewed and assessed the group's existing trade receivables for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of IFRS 9 to determine the credit risk of the respective items at the date they were initially recognised. There is no material change to the amount of the provision after undertaking this exercise.

New standards issued but not yet effective

The group has not applied the following new and revised IFRSs that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

IFRS 16	_Leases_
IFRS 17	_Insurance Contracts_
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Annual Improvements to IFRS Standards 2015–2017 Cycle	_Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs_
Amendments to IAS 19 Employee Benefits	_Plan Amendment, Curtailment or Settlement_
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	_Sale or Contribution of Assets between an Investor and its Associate or Joint Venture_
IFRIC 23	_Uncertainty over Income Tax Treatments_

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the group in future periods.

2. Accounting policies *(continued)*

IFRS 16 - Leases

General impact of application of IFRS 16 Leases

IFRS 16, which was endorsed by the EU on 9 November 2017, provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related Interpretations when it becomes effective for accounting periods beginning on or after 1 January 2019. The date of initial application of IFRS 16 for the group was 1 April 2019.

The group has chosen the modified retrospective application of IFRS 16 in accordance with IFRS 16 :C5(a). Consequently, the group will not restate the comparative information.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17.

Impact of the new definition of a lease

The group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 April 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 April 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of IFRS 16, the group has carried out an implementation project. The project has shown that the new definition in IFRS 16 will not change significantly the scope of contracts that meet the definition of a lease for the group.

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

On initial application of IFRS 16, for all leases (except as noted below), the group will:

a) Recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
b) Recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
c) Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 *Impairment of Assets*.

This will replace the previous requirement to recognise a provision for onerous lease contracts.

2. Accounting policies _(continued)_

Impact on Lessee Accounting _(continued)_

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the group will opt to recognise a lease expense on a straight-line basis as permitted by IFRS 16.

As at 31 March 2019, the group has non-cancellable operating lease commitments of £10.6m (2018: £12.5m).

A preliminary assessment indicates that £10.6m of these arrangements relate to leases other than short-term leases and leases of low-value assets. The group will recognise a right-of-use asset of £11.3m and a corresponding lease liability of £11.3m in respect of all these leases. The impact on profit or loss is to decrease other operating expenses by £3.9m, to increase depreciation by £1.3m and to increase interest expense by £0.2m.

Under IAS 17, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under IFRS 16 would be to increase the cash generated by operating activities by £1.6m and to increase net cash used in financing activities by the same amount.

Accounting Estimates and Judgements

In the application of the company's accounting policies, the directors are required to make judgements (other than those involving estimations) that have a significant impact on the amounts recognised and to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors consider the principal estimates made in the financial statements to be:

Infrastructure assets valuation

Infrastructure assets are held under a revaluation model, as described earlier in this note. Value in use is determined using a discounted cash flows approach to calculate the Business Enterprise Value. The valuation uplift contributes to the cash generating unit valuation, and the premium on RCV applied in arriving at the valuation amount is used to formulate the terminal value used in the goodwill impairment review.

The key assumptions used in the model are the discount rate (based on the cost of equity), RPI and the underlying cashflows. The discount rate applied is 8.00% (2017/18: 8.00%). A long term RPI rate has been adopted of 3.0% (2017/18: 3.0%). An increase in the discount rate to 8.5% would result in a reduction in the valuation of £20.1m.

2. Accounting policies _(continued)_

Fair value of financial instruments

The group's accounting policy for financial instruments is detailed on pages 73-74. In accordance with IFRS, financial instruments are recognised in the Financial Statements at fair value. The fair value of financial instruments that are not traded on an active market is determined using a discounted cash flow valuation technique. Management uses its judgement to make assumptions relating to future cash flows, mainly based on forward interest rates from observable yield curves at the end of the reporting period, counter-party funding adjustments and contract interest rates, discounted at a rate that reflects own or counter-party credit risk. Details of the nature of the assumptions inherent within the financial instrument fair valuations can be found in note 20. Particular estimation uncertainty exists in relation to counter-party funding adjustments and own and counter-party credit risk assumptions, since these are unobservable inputs to which the valuation model is materially sensitive.

The fair value of net derivative financial liabilities of £1,976.9m would be £45.7m (2017/18: £29.7m) higher or lower were the counter-party funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £32.1m (2017/18: £43.4m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £89.3m (2017/18: £69.7m) higher or lower were the recovery rate assumption to change by ten per cent.

Revenue recognition from household customers where payment is not considered probable

There has been a change in accounting estimate from the prior year in respect of revenue recognition from those household customers where payment is not considered probable, and this has been applied prospectively. In previous years, management estimated that revenue attributable to customers who were not deemed probable of paying their bills was immaterial, and hence no such amounts were excluded from reported revenues. Following continued improvements in the available data on a customer by customer basis, in the current year, management have revised the estimate in this regard, and as a result, billed and unbilled amounts receivable, totalling £16.8m, have not been recognised as revenue in the current year on the basis that they are not probable of collection. This reduction in revenue is offset by a consequent reduction in the bad debt charge and bad debt provision of the same amount.

Given the number of customers to whom the group provides services is significant, the estimate of those household customers who are not likely to pay their bills requires significant judgement. Management's estimate of revenue receivable that should not be recorded as revenue in the financial statements is based on amounts billed and unbilled relating to:

- household customers who have not paid their bill in over two years; and
- new household customer accounts where no payments have been received in the first six months.

Management will monitor the actual payment profile of household customers going forward and adjust their estimate of those amounts not deemed probable of payment to take account of changes in customer behaviour and ability to pay.

2. Accounting policies _(continued)_

The directors consider the principal judgements made in the financial statements to be:

Capitalisation of labour costs

Additions made to property, plant and equipment include £52.8m (2017/18: £52.5m) of own work capitalised. Judgement is made to ensure these costs relate to relevant assets and that future economic benefits will flow to the group. Judgement is also made as to whether certain costs constitute repairs and maintenance or the enhancement of assets.

Depreciation

The group's accounting policy for property, plant and equipment ('PPE') is detailed on page 71. Estimated useful economic lives of PPE are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of capital investment to the company, variations between actual and estimated useful lives could impact operating results both positively and negatively. Historically, only minor changes to estimated useful lives have been required.

Recognition of revenue under IFRS 15

Judgement is required to identify the parties to the contract and the performance obligations relating to capital income, being transactions relating to the provision of a network connection or ongoing access to the network. This is an area that remains under active consideration within the water industry and the accounting profession. The group has elected to continue deferring this income over the life of the associated network asset, as described on page 77. Revenue recognised in the year in relation to these items amounted to £8.2m, and the associated deferred income balance was £184.7m.

3. Revenue

	2019	2018
	£m	£m
External revenue	**1,059.5**	1,005.9
Inter-company revenue	**3.1**	4.3
Total revenue from continuing operations	**1,062.6**	1,010.2

Timing of revenue recognition

	2019	2018
	£m	£m
At a point in time	**1,048.9**	996.6
Over time	**13.7**	13.6
Total revenue from continuing operations	**1,062.6**	1,010.2

4. Operating costs from continuing operations before exceptional items

	2019	2018
	£m	£m
Own work capitalised	**(52.8)**	(52.5)
Raw materials and consumables	**36.0**	33.1
Staff costs (note 6)	**129.8**	118.0
Pension deficit contributions	**13.0**	12.6
Depreciation and impairment of property, plant and equipment (note 12)	**294.7**	286.1
Operating lease rentals - minimum lease payments	**3.9**	2.9
Amortisation of intangible assets (note 11)	**11.1**	8.9
Movement in fair value of energy contracts	**-**	(14.4)
Impairment of trade receivables	**5.6**	19.6
Profit on disposal of property, plant and equipment	**(2.8)**	(1.9)

Auditors' remuneration

Services provided by the group's auditors are analysed as follows:

	2019	2018
	£m	£m
Fees payable to the group's auditors:		
The audit of company's subsidiaries pursuant to legislation	**0.2**	0.2
Other assurance services	**0.4**	-
	0.6	0.2

5. Exceptional items

	2019	2018
	£m	£m
Operating costs	**34.4**	8.1

In the current year to 31 March 2019, the group has incurred £25.5m of operational costs associated with the severe weather conditions. The period of unusually low temperatures and heavy snowfall followed by a prolonged dry summer resulted in additional leakage costs attributable to increased find activity and increased number of repair and maintenance jobs. A further £6.3m operational costs have been incurred associated with the assets damaged in a flooding incident that occurred in December 2015 (2017/18: £8.1m). Legal and professional fees of £2.6m have been incurred in the current financial year in relation to the planned sale of the Non-Household Retail business. These costs have been incurred as a result of events that are not expected to recur, and as such, classification as exceptional is appropriate.

6. Directors and employees

	2019	2018
	Number	Number
Average monthly number of people employed by the group		
UK regulated water services	**2,888**	2,681

	2019	2018
	£m	£m
Total employment costs:		
Wages and salaries	**108.5**	98.3
Social security costs	**11.6**	10.3
Other pension costs	**9.7**	9.4
	129.8	118.0

Directors' emoluments

	2019	2018
	£m	£m
Aggregate emoluments	**2.3**	1.6

The amounts in respect of the highest paid director are as follows:

	2018	2018
	£m	£m
Aggregate emoluments	**1.3**	0.9

All executive directors have service agreements which are terminable by the group on twelve months' notice.

During the year ended 31 March 2019, one (2017/18: one) director was a contributory member of the Kelda Group Pension Plan, a defined benefit scheme. The accrued pension benefit of the highest paid director in the year ended 31 March 2019, was £0.2m (2017/18: £0.2m).

7. Finance income and finance costs

	2019 £m	2018 £m
Finance income		
Interest on bank deposits	**0.1**	0.1
Interest receivable from inflation linked swaps	**51.9**	33.1
Interest receivable from cross currency interest rate swaps	**12.4**	13.0
Interest receivable on loans to group companies	**59.5**	58.2
Finance income before fair value income	**123.9**	104.4
Fair value income (note 20)	**41.8**	115.4
Total finance income	**165.7**	219.8
Finance costs		
Interest payable on guaranteed bonds	**152.1**	147.2
Interest payable on US Dollar bonds	**10.9**	11.3
Interest payable on AU Dollar bonds	**2.0**	2.0
Amortisation of issue costs in respect of bonds	**3.3**	3.3
Total finance costs for bonds	**168.3**	163.8
Bank loans and overdrafts	**17.4**	16.2
Bank loans under Kelda Finance facility	**11.4**	11.5
RPI accretion on inflation linked bonds	**38.1**	54.6
RPI accretion on inflation linked swaps	**-**	48.6
Interest payable on inflation linked swaps	**50.6**	43.6
Finance leases	**1.6**	6.2
Commitment fees and miscellaneous interest	**8.3**	9.1
Finance costs before interest capitalisation and fair value costs	**295.7**	353.6
Interest capitalised	**(20.8)**	(14.3)
Finance costs before fair value costs	**274.9**	339.3
Fair value cost (note 20)	**293.1**	74.0
Total finance cost	**568.0**	413.3

For more information on guaranteed, US Dollar and AU Dollar bonds refer to note 14.

During the year ended 31 March 2019, the presentation of the RPI accretion on inflation linked swaps changed. In the year ended 31 March 2019, the value of £84.9m (2018: £48.6m) is included in fair value charges (note 20), as part of the movement of fair value of inflation linked swaps. In 2017/18, it was included within finance costs.

8. Tax (credit)/charge

	2019	2018
	£m	£m
Current tax		
UK Corporation tax at 19% (2018: 19%)	**13.8**	11.5
Adjustments in respect of prior periods	**0.3**	-
Total current tax charge on continuing activities	**14.1**	11.5
Deferred tax		
UK (credit)/charge for origination and reversal of temporary differences	**(44.0)**	7.1
(Over)/under provision of tax in repsect of previous periods	**(0.6)**	1.9
Effect of tax rate changes	**4.6**	(0.7)
Total deferred tax (credit)/charge to the income statement on continuing activities (note 18)	**(40.0)**	8.3
Total tax (credit)/charge on (loss)/profit from ordinary activities to the income statement	**(25.9)**	19.8
Tax relating to items charged to equity		
Deferred tax:		
Revaluation of infrastructure assets	**7.0**	34.0
Tax charge in the group statement of comprehensive income	**7.0**	34.0

The differences between the total current and deferred tax charge shown and the amount calculated by applying the rate of corporation tax of 19% (2018: 19%) to the (loss)/profit on ordinary activities before tax is as follows:

	2019	2018
	£m	£m
(Loss)/profit from continuing operations before taxation	**(171.7)**	92.6
Current and deferred tax on group (loss)/profit on ordinary activities at the standard UK tax rate	**(32.6)**	17.6
Effects of:		
Expenses not deductible for tax purposes	**2.5**	1.0
Income not taxable	**(0.3)**	-
Difference in tax rates	**4.6**	(0.7)
Adjustments in relation to prior periods	**(0.3)**	1.9
Group relief surrendered for no charge	**0.2**	-
Total group current and deferred tax (credit)/charge for the year to the income statement	**(25.9)**	19.8

8. Tax (credit)/charge *(continued)*

Non deductible expenses

Non deductible expenses: expenditure and costs that are incurred by the group but are not deductible for tax purposes. For Kelda Finance (No.1), this mainly relates to non-deductible depreciation on capital assets that do not qualify for capital allowances.

Income not taxable for tax purposes

Income reflected in the financial statements which is not subject to tax as either there is no cash received by the group or the income has reduced the amount of capital allowances that can be claimed on the assets associated with the income.

Effect of future tax rate changes on deferred tax balances

Lower future enacted corporation tax rates will reduce the amount of deferred tax that must be provided for. The tax timing differences on which deferred tax is provided will be expected to reverse at the lower corporation tax rate.

Corporation tax rates

The corporation tax rate of 19%, enacted in the Finance Act (No 2) Act 2015 and applicable from 1 April 2017, has been used in preparing these financial statements. (2017/18: 19%).

The Finance Act 2016 will reduce the corporation tax rate further to 17% from 1 April 2020. This reduction was substantively enacted on 6 September 2016 and accordingly the deferred tax liability at 31 March 2019 has been calculated using this rate.The deferred tax credit for continuing operations for the year reflected in the income statement relates to the following:

The deferred tax credit for the year relates to the following:

	2019	2018
	£m	£m
Property, plant and equipment	**(14.2)**	(3.4)
Financial instruments	**(25.9)**	12.1
Pension and employment obligations	**0.1**	(0.4)
Deferred tax (credit)/charge	**(40.0)**	8.3

9. Discontinued operations

During 2017/18, the group classified the relevant element of Yorkshire Water Services as held for sale, in connection with the withdrawal from the non-household retail market. The nature of the sale has since changed; there will no longer be a share sale, instead specific assets from those components will be sold. As a result, the components have not been classified as held for sale or a discontinued operation in the current year.

Results from discontinued operations

	2019	2018
	£m	£m
Revenue	**-**	12.1
Expenses	**-**	(10.0)
Profit before tax	**-**	2.1
Income tax expense	**-**	-
Profit after tax	**-**	2.1

The profit after tax from the discontinued operation of £nil (2017/18: £2.1m) is attributable entirely to the owners of the company.

10. Dividends

	2019	2018
	£m	£m
Total dividends	**67.5**	74.4

During the year, dividends of £67.5m, £0.68m per share (2018: £74.4m, £0.74m per share), were declared and settled in cash.

11. Intangible assets

	Software £m	Software under construction £m	Goodwill £m	Total £m
Cost				
Balance at 1 April 2018	51.0	23.0	14.2	88.2
Additions	6.2	60.6	-	66.8
Transfers on commissioning	7.0	(7.0)	-	-
Balance at 31 March 2019	64.2	76.6	14.2	155.0
Amortisation				
Balance at 1 April 2018	19.7	-	-	19.7
Amortisation for the year	11.1	-	-	11.1
Balance at 31 March 2019	30.8	-	-	30.8
Net book value				
At 31 March 2019	**33.4**	**76.6**	**14.2**	**124.2**
At 31 March 2018	31.3	23.0	14.2	68.5

Goodwill arose on the transfer into Yorkshire Water of the trade and net assets of The York WaterWorks Limited on 1 April 2000. The directors do not believe this should be impaired as it relates to assets which are still contributing to the generation of positive cash flows within the business.

12. Property, plant and equipment

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2018	2,092.9	5,770.9	3,405.9	498.0	11,767.7
Additions	2.9	86.6	71.0	339.7	500.2
Transfers on commissioning	75.3	35.5	52.2	(163.0)	-
Disposals	(229.8)	(0.5)	(899.6)	-	(1,129.9)
Revaluation	(2.9)	43.9	-	-	41.0
Balance at 31 March 2019	1,938.4	5,936.4	2,629.5	674.7	11,179.0
Depreciation and impairment					
Balance at 1 April 2018	735.9	1,318.1	2,109.8	-	4,163.8
Depreciation charge for the year	29.9	88.3	176.2	-	294.4
Impairment	0.3	-	-	-	0.3
Disposals	(229.8)	(0.3)	(899.4)	-	(1,129.5)
Balance at 31 March 2019	536.3	1,406.1	1,386.6	-	3,329.0
Net book value					
At 31 March 2019	**1,402.1**	**4,530.3**	**1,242.9**	**674.7**	**7,850.0**
At 31 March 2018	1,357.0	4,452.8	1,296.1	498.0	7,603.9

During the year the group capitalised borrowing costs amounting to £20.8m (2017/18: £14.3m) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.31% (2017/18: 3.49%). Included in the net book value as at 31 March 2019 are £122.0m of capitalised borrowing costs (2017/18: £104.4m).

12. Property, plant and equipment _(continued)_

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Under construction £m	Total £m
Cost or valuation					
Balance at 1 April 2017	2,066.5	5,457.9	3,271.2	341.3	11,136.9
Additions	8.5	57.5	88.2	292.2	446.4
Transfers on commissioning	23.1	55.6	52.2	(130.9)	-
Disposals	(4.9)	-	(5.1)	-	(10.0)
Contributions	-	-	(0.6)	(4.6)	(5.2)
Revaluation	(0.3)	199.9	-	-	199.6
Balance at 31 March 2018	2,092.9	5,770.9	3,405.9	498.0	11,767.7
Depreciation and impairment					
Balance at 1 April 2017	703.4	1,235.6	1,947.5	-	3,886.5
Depreciation charge for the year	35.5	82.5	167.1	-	285.1
Impairment	1.0	-	-	-	1.0
Disposals	(4.0)	-	(4.8)	-	(8.8)
Balance at 31 March 2018	735.9	1,318.1	2,109.8	-	4,163.8
Net book value					
At 31 March 2018	**1,357.0**	**4,452.8**	**1,296.1**	**498.0**	**7,603.9**
At 31 March 2017	1,363.1	4,222.3	1,323.7	341.3	7,250.4

Assets included above held under finance leases amount to:

	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Total £m
Cost	28.2	71.3	65.4	164.9
Depreciation	(9.9)	(31.8)	(53.3)	(95.0)
Net book amount at 31 March 2019	**18.3**	**39.5**	**12.1**	**69.9**
Net book amount at 31 March 2018	18.8	40.6	14.4	73.8

12. Property, plant and equipment _(continued)_

Revaluation - Infrastructure assets

The group's infrastructure assets were valued at 31 March 2019. These annual valuations were performed in accordance with IAS 16 which requires that assets subject to a policy of revaluation should be carried at their fair value less any subsequent accumulated depreciation and accumulated impairment losses.

IAS 16 allows, where market based evidence of fair value is not available due to the specialised nature of the items of property plant and equipment, an entity to estimate fair value using an income approach. Having considered the requirement of IAS 16, management concluded that the most reliable valuation method to determine the current value for the tangible assets of a UK water company is a two-step approach:

- Estimating the business value in use ("VIU"), using a discounted cash flow ("DCF") model excluding outperformance against Ofwat's targets to determine the business enterprise value. Excluding forecast outperformance against the regulatory allowance is a proxy for excluding any goodwill that a purchaser would pay for the business. The enterprise value was then cross-checked against the Regulatory Capital Value ("RCV"), and;
- Allocating the VIU of the business (less relevant working capital balances) to individual classes of tangible assets.

The increase in infrastructure assets valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve. A revaluation of £43.9m, before deferred tax, was recognised in the year ended 31 March 2019 (2017/18: £199.9m).

Revaluation - Land and buildings

Certain categories of the group's land and buildings are also held under a revaluation model, on the basis of existing use, and were valued by independent qualified valuers as at March 2019.

The valuations were undertaken in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors in the UK by the following surveyors:

Non-specialist properties	Cushman & Wakefield Limited
Rural estates	Carter Jones LLP
Residential properties	Savills (L&P) Limited

The external valuations on properties will be re-performed on a periodic basis. An interim valuation is booked in intervening years based on directors' valuations.

The decrease in valuation has been incorporated into the financial statements and the resulting revaluation adjustments taken to the revaluation reserve to the extent a surplus was previously recognised. A revaluation loss of £2.9m, before deferred tax and adjustment for historical depreciation, was recognised in the revaluation reserve in the year ended 31 March 2019 (2017/18: £nil). A charge of £0.3m was also recognised in operating expenses with respect to this valuation.

12. Property, plant and equipment *(continued)*

Land and Buildings

The net book value of land and buildings comprises:

	2019	2018
	£m	£m
Freehold	**1,400.3**	1,354.8
Long leasehold	**0.6**	0.6
Short leasehold	**1.2**	1.6
	1,402.1	1,357.0

The following information relates to tangible assets carried on the basis of revaluation

	Valuation	**Historical cost basis**
	£m	**£m**
Infrastructure assets	4,530.3	3,865.2
Non-specialist properties	15.2	13.5
Rural estates	52.1	0.5
Residential properties	2.5	-
	4,600.1	**3,879.2**

Analysis of the net book value of the revalued non specialised properties, rural estates and residential properties is as follows:

	Valuation	**Historical cost basis**
	£m	**£m**
At 31 March 2017	76.6	14.9
Disposal of revalued assets	(0.8)	-
Depreciation and impairment	(2.2)	(0.6)
At 31 March 2018	73.6	14.3
Revaluation loss	(2.9)	-
Depreciation and impairment	(0.9)	(0.3)
At 31 March 2019	**69.8**	**14.0**

12. Property, plant and equipment _(continued)_

Analysis of the net book value of the revalued infrastructure assets is as follows:

	Valuation £m	Historical cost basis £m
Valuation/cost at 31 March 2019	5,936.4	5,364.4
Aggregate depreciation	(1,406.1)	(1,499.2)
Net book value at 31 March 2019	**4,530.3**	**3,865.2**
Valuation/cost at 31 March 2018	5,770.9	5,179.4
Aggregate depreciation	(1,318.1)	(1,381.0)
Net book value at 31 March 2018	4,452.8	3,798.4

There have been no disposals or transfers of revalued infrastructure assets during the year.

13. Trade and other receivables

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade receivables	**139.2**	114.6
Provision for impairment of trade receivables	**(23.5)**	(35.0)
	115.7	79.6
Prepayments and accrued income	**100.1**	64.3
Amounts owed by group companies	**18.0**	9.2
Other tax and social security	**13.2**	12.8
Other receivables	**3.2**	2.1
	250.2	168.0
Amounts falling due after more than one year:		
Amounts owed by group companies	**1,150.3**	1,191.6

All receivables are reviewed regularly to assess any associated credit risk. There are no significant concentrations of credit risk. Any impairment considered necessary has been made to the amounts included above. See note 20 for further details of credit risks associated with financial instruments.

Trade and other receivables totalling £nil as at 31 March 2019 (2017/18: £58.5m) have been transferred to assets held for sale (note 15).

Amounts owed by group companies within one year and after more than one year include £223.5m (2017/18: £231.7m) in respect of a loan that reflected the fair value of inflation linked swaps at the date of novation from Saltaire Water Limited to Yorkshire Water in August 2008 and a £743.9m loans to Kelda Eurobond Co Limited (2017/18: £768.8m).

Amounts due after more than one year by group undertakings are unsecured; bear interest at 6 month LIBOR plus 4.25%, have no contracted repayment date and are repayable on demand. A repayment profile is in place to repay £8.2m per annum of the £223.5m loan. This is shown in amounts receivable within one year and the balance is reflected in amounts receivable after one year.

Amounts owed by group companies after more than one year include £191.1m (2017/18 £191.1m loan to Kelda Eurobond Co Limited at an interest rate of six month LIBOR plus 3.97% margin.

Credit control policies and procedures are determined at the individual business unit level. By far the most significant business unit of the group is Yorkshire Water Services Limited, which represents 99.6% of group turnover and 99.7% of net trade receivables. Yorkshire Water has a statutory obligation to provide water and waste water services to domestic customers within its region and therefore there is no concentration of credit risk with respect to its trade receivables from these services and the credit quality of its customer base reflects the wealth and prosperity of all the domestic households within its region.

The expected credit loss rate is 2.2%.

13. Trade and other receivables *(continued)*

As at 31 March 2019

		Past due					
	Not due	Less than 1 year overdue	Between 1 and 2 years overdue	Between 2 and 3 years overdue	Between 3 and 4 years overdue	More than 4 years overdue	Total
	£m	£m	£m	£m	£m	£m	£m
Trade receivables	0.7	91.3	22.8	11.6	6.2	6.6	139.2
Allowance for doubtful receivables	-	(2.4)	(4.6)	(4.7)	(5.2)	(6.6)	(23.5)
Expected credit loss (%)	-	2.6	20.2	40.5	83.9	100	16.9

As at 31 March 2018

		Past due					
	Not due	Less than 1 year overdue	Between 1 and 2 years overdue	Between 2 and 3 years overdue	Between 3 and 4 years overdue	More than 4 years overdue	Total
	£m	£m	£m	£m	£m	£m	£m
Trade receivables	0.6	70.8	21.6	11.1	5.8	4.7	114.6
Allowance for doubtful receivables	-	(12.3)	(7.2)	(5.8)	(5.0)	(4.7)	(35.0)
Expected credit loss (%)	-	17.3	33.3	52.3	86.2	100	30.5

The movement in the provision for impairment of trade receivables is as follows:

	2019	2018
	£m	£m
Provision brought forward	**35.0**	31.9
Charge in the year	**5.6**	19.6
Cash receipts	**-**	0.4
Amounts written off	**(17.1)**	(16.9)
Provision carried forward	**23.5**	35.0

In all cases, the fair value of trade and other receivables is considered to be the carrying value as stated above.

14. Financing

(i) Cash and cash equivalents

	2019 £m	2018 £m
Cash and cash equivalents	**37.4**	7.1
Short term deposits	**14.1**	34.1
	51.5	41.2

At 31 March 2019, the group had available £539.1m (2018: £649.0m) of undrawn committed borrowing facilities.

(ii) Borrowings

	2019 £m	2018 £m
Current borrowings:		
Bank borrowings	**48.7**	47.3
Finance lease liabilities	**14.2**	12.6
Fixed rate guaranteed bonds due in less than 5 years	**474.2**	-
Other borrowings	**325.0**	220.0
	862.1	279.9

	2019 £m	2018 £m
Non-current borrowings:		
Bank borrowings	**695.2**	296.7
Fixed rate guaranteed bonds due in less than 5 years	**218.8**	755.4
Fixed rate guaranteed bonds due in more than 5 years	**1,918.1**	2,004.9
Inflation linked guaranteed bonds due in more than 5 years	**1,351.5**	1,303.7
Floating rate bonds due in more than 5 years	**74.3**	74.3
RPI uplift on inflation linked bonds	**-**	172.1
Fixed rate US Dollar bonds due in less than 5 years	**313.8**	192.5
Fixed rate US Dollar bonds due in more than 5 years	**-**	125.7
Fixed rate AUS Dollar bonds due in more than 5 years	**30.0**	29.6
Finance lease liabilities	**87.8**	100.2
	4,689.5	5,055.1

During the year ended 31 March 2019, the presentation of the RPI uplift on inflation linked swaps changed. As at 31 March 2019, the value of £127.3m (2018: £172.1m) is included in financial liabilities (note 20), included within the inflation linked swaps balance. In 2018, it was included within non-current borrowings.

14. Financing *(continued)*

(ii) Borrowings *(continued)*

Fixed rate guaranteed bonds due in less than 5 years are made up of:

Guaranteed bonds due 2019 £274.9m (2018: £274.7m)
These bonds are repayable in one amount on 21 August 2019. Interest is charged at 6.0%.

Guaranteed bonds due 2020 £199.3m (2017: £198.7m)
These bonds are repayable in one amount on 17 February 2020. Interest is charged at 5.75%.

Guaranteed bonds due 2023 £213.3m (2018: £212.9m)
These bonds are repayable in one amount on 21 February 2023. Interest is charged at 6.5876%.

Guaranteed bonds due 2023 £5.5m (2018: £5.2m)
These bonds are repayable in one amount on 21 February 2023. Interest is charged at 5.375%.

Fixed rate guaranteed bonds due in more than 5 years are made up of:

Guaranteed bonds due 2027 £6.7m (2018: £6.6m)
These bonds are repayable in one amount on 28 May 2027. Interest is charged at 5.5%.

Guaranteed bonds due 2027 £137.1m (2018: £137.3m)
These bonds are repayable in one amount on 28 May 2027. Interest is charged at 6.454%.

Guaranteed bonds due 2028 £59.8m (2018: £59.8m)
These bonds are repayable in one amount on 22 September 2028. Interest is charged at 2.03%.

Guaranteed bonds due 2029 £262.2m (2018: £273.7m)
These bonds are repayable in one amount on 1 August 2029. Interest is charged at 3.625%.

Guaranteed bonds due 2029 £102.7m (2018: £100.8m)
These bonds are repayable in one amount on 30 October 2029. Interest is charged at 3.54%.

Guaranteed bonds due 2031 £262.1m (2018: £250.8m)
These bonds are repayable in one amount on 17 April 2031. Interest is charged at 6.6011%.

Guaranteed bonds due 2031 £0.8m (2018: £0.8m)
These bonds are repayable in one amount on 17 April 2031. Interest is charged at 6.625%.

Guaranteed bonds due 2031 £49.8m (2018: £49.8m)
These bonds are repayable in one amount on 22 September 2031. Interest is charged at 2.14%.

Guaranteed bonds due 2033 £49.8m (2018: £49.8m)
These bonds are repayable in one amount on 22 September 2033. Interest is charged at 2.21%.

Guaranteed bonds due 2033 (Class B) £105.4m (2018: £103.4m)
These bonds are repayable in one instalment on 13 June 2033. Interest is charged at 4.965%.

Guaranteed bonds due 2034 £49.8m (2018: £nil)
These bonds are repayable in one amount on 28 September 2034. Interest is charged at 3.08%.

Guaranteed bonds due 2036 £39.9m (2018: £39.8m)
These bonds are repayable in one amount on 22 September 2036. Interest is charged at 2.30%.

Guaranteed bonds due 2036 £49.8m (2018: £49.8m)
These bonds are repayable in one amount on 22 September 2036. Interest is charged at 2.30%.

Guaranteed bonds due 2037 £195.7m (2018: £195.6m)
These bonds are repayable in one amount on 28 May 2037. Interest is charged at 5.5%.

Guaranteed bonds due 2038 £49.8m (2018: £nil)
These bonds are repayable in one amount on 28 September 2038. Interest is charged at 3.17%.

14. Financing *(continued)*

(ii) Borrowings *(continued)*

Guaranteed bonds due 2039 £303.4m (2018: £303.8m)
These bonds are repayable in one amount on 19 August 2039. Interest is charged at 6.375%.

Guaranteed bonds due 2046 (Class B) £193.3m (2018: £191.9m)
These bonds are repayable in one amount on 22 March 2046 and have an associated *step-up and call date on 22/03/2023)*. Interest is charged at 3.75%

Inflation linked guaranteed bonds due in more than 5 years are made up of:

Guaranteed bonds due 2033 £178.9 (2018: £159.5m)
These bonds are repayable in one amount on 29 July 2033. Interest is charged at 3.3066% multiplied by an index ratio and the principal amount is increased semi-annually in line with the Retail Price Index (RPI).

Guaranteed bonds due 2033 £(0.8m) (2018: £(0.8m))
These bonds are repayable in one amount on 29 July 2033. Interest is charged at 3.048%% multiplied by an index ratio and the principal amount is increased semi-annually in line with the Retail Price Index (RPI).

Guaranteed bonds due 2039 £356.4m (2018: £348.4m)
These bonds are repayable in one amount on 30 December 2039. Interest is charged at 2.718% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2041 £59.3m (2018: £57.8m)
These bonds are repayable in one amount on 30 December 2041. Interest is charged at 2.16% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2042 £59.1m (2018: £57.5m)
These bonds are repayable via an amortisation profile with the final amount due on 22 May 2042. Interest is charged at 1.803% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2050 £89.5m (2018: £87.3m)
These bonds are repayable in one amount on 1 February 2050. Interest is charged at 1.8225% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2051 £177.1m (2018: £172.7m)
These bonds are repayable in one amount on 1 August 2051. Interest is paid at 1.462% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2054 £117.3m (2018: £114.3m)
These bonds are repayable in one instalment on 1 February 2054. Interest is charged at 1.75756% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2056 £177.0m (2018: £172.7m)
These bonds are repayable in one amount on 1 August 2056. Interest is paid at 1.46% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

Guaranteed bonds due 2058 £137.7m (2018: £134.3m)
These bonds are repayable in one amount on 1 February 2058. Interest is charged at 1.7085% multiplied by an index ratio and the principal amount is increased semi-annually in line with RPI.

The group has an early repayment option on all of the above bonds, subject to the agreement of the issuer.

14. Financing *(continued)*

(ii) Borrowings *(continued)*

Fixed rate US Dollar (USD) bonds

$30.0m guaranteed USD fixed rate bonds due 2018 £nil (2018: £21.3m)
These bonds are repayable in one amount on 13 December 2021. Interest is charged at 3.18%.

$15.0m guaranteed USD fixed rate bonds due 2019 £nil (2018: £10.6m)
These bonds are repayable in one amount on 5 January 2022. Interest is charged at 3.18%.

$115.0m guaranteed USD fixed rate bonds due 2021 £87.8m (2018: £80.3m)
These bonds are repayable in one amount on 13 December 2021. Interest is charged at 3.77%.

$40.0m guaranteed USD fixed rate bonds due 2022 £30.5m (2018: £27.9m)
These bonds are repayable in one amount on 5 January 2022. Interest is charged at 3.77%.

$75.0m guaranteed USD fixed rate bonds (Class B) due 2022 £57.2m (2018: £52.4m)
These bonds are repayable in one amount on 5 January 2022. Interest is charged at 5.07%.

$150.0m guaranteed USD fixed rate bonds due 2023 £115.3m (2018: £104.8m)
These bonds are repayable in one amount on 13 December 2023. Interest is charged at 3.87%.

$30.0m guaranteed USD fixed rate bonds due 2024 £23.0m (2018: £29.6m)
These bonds are repayable in one amount on 5 January 2024. Interest is charged at 3.87%.

Fixed rate Australian Dollar bonds

$50m guaranteed Australian Dollar (AUD) bonds due 2023 £30.0m (2018: £20.9m)
These bonds are repayable in one amount on 26 April 2023. Interest is charged at 5.875%.

Bank and Term loans

(i) Bank loans within long term borrowings relate to:
- Loan facilities of £36.5m with maturities between 1 and 2 years.
- Loan facilities of £49.8m with maturities between 2 and 5 years.
- Loan facilities of £252.4m with maturities in more than 5 years.

(ii) Term loans within long term borrowings relate to:
- A fixed rate term facility of £49.9m due July 2031 with interest charged at 2.881%.
- A inflation (Consumer Price Index or CPI) linked term facility of £25.4m due July 2031 with interest charged at 0.8125% multiplied by an index ratio and the principal amount is increased semi-annually in line with CPI.
- A inflation (CPI) linked term facility of £99.7m due March 2029 with interest is charged at 0.4745% multiplied by an index ratio and the principal amount is increased semi-annually in line CPI.

The long term bank loans stated above include £255.8m (£260.0m loan less £4.2m unamortised issue costs) held at Kelda Finance (No.2) Limited. (2018: £255.1m (£260.0m loan less £4.9m unamortised loan issue costs)).

14. Financing *(continued)*

(iii) Finance leases

	Minimum lease payments 2019 £m	Minimum lease payments 2018 £m
Amounts payable under finance leases:		
No later than 1 year	**16.5**	15.0
Later than 1 year and no later than 5 years	**22.2**	33.6
Later than 5 years	**77.9**	81.7
	116.6	130.3
Less: future finance charges on finance lease liabilities	**(14.6)**	(17.5)
Present value of lease obligations	**102.0**	112.8
Amount due for settlement within 12 months	**14.2**	12.6
Amount due for settlement after 12 months	**87.8**	100.2
	102.0	112.8

The weighted average lease term is 16.3 years (2018: 16.6 years). All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

15. Assets held for sale

Assets and liabilities of the disposal group

During 2017/18, the group classified the relevant element of Yorkshire Water Services as held for sale, in connection with the withdrawal from the non-household retail market. The nature of the sale has since changed; there will no longer be a share sale, instead specific assets from those components will be sold. As a result, the components have not been classified as held for sale or as a discontinued operation in the current year.

At 31 March 2018 the disposal group is stated at its book value at the date it met the recognition of a disposal group held for sale. Management have assessed the fair value of the disposal group using expected selling price based on actual bids received. The fair value of the disposal group is higher than the book value and therefore the carrying amount of the disposal group in the financial statements has been presented as the book value. The disposal group comprises the following assets and liabilities:

	2019 £m	2018 £m
Trade and other receivables	**-**	58.5
Assets held for sale	**-**	58.5

	2019 £m	2018 £m
Trade and other payables	**-**	(6.4)
Liabilities held for sale	**-**	(6.4)

16. Trade and other payables

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade payables	**79.2**	65.6
Capital payables	**102.0**	95.5
Social security and other taxes	**2.9**	2.5
Receipts in advance	**61.4**	70.7
Amounts owed to group companies	**4.5**	4.7
Interest payable	**73.5**	73.7
Other payables	**29.6**	15.1
Corporation tax	**-**	9.1
	353.1	336.9
Amounts falling due after more than one year:		
Interest payable	**3.1**	3.8
Other payables	**1.9**	1.8
	5.0	5.6

Trade and other payables principally comprise amounts outstanding for trade purchases and on-going costs. The directors consider that the carrying amount of trade and other payables approximate to their fair value.
Amounts owed to group companies relate to trading balances and are interest free, unsecured and repayable on demand.

17. Deferred contributions on depreciated assets

	2019 £m	2018 £m
Amounts falling due in less than one year:		
Contributions to depreciated assets	**11.0**	10.0

Amounts falling due after more than one year:	2019 £m	2018 £m
Contributions to depreciated assets	**455.6**	433.5

18. Deferred income tax liabilities

	Property, plant & equipment £m	Financial instruments £m	Pension obligations £m	Total £m
At 1 April 2017	735.1	(353.2)	-	381.9
Charge/(credit) to income statement	(3.4)	12.1	(0.4)	8.3
Charge to equity	34.0	-	-	34.0
At 1 April 2018	765.7	(341.1)	(0.4)	424.2
Charge/(credit) to income statement	(14.2)	(25.9)	0.1	(40.0)
Charge to equity	7.0	(4.2)	-	2.8
At 31 March 2019	**758.5**	**(371.2)**	**(0.3)**	**387.0**

19. Ordinary shares

	Ordinary shares of £1	
	2019	2018
	£	£
Issued and fully paid:		
100 (2018: 100) Ordinary shares of £1.00 each	**100**	100

20. Financial instruments

The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

Net debt and associated financial instruments comprise the following:

	2019 Less than one year £m	**2019 More than one year £m**	**2019 Total £m**	2018 Less than one year £m	2018 More than one year £m	2018 Total £m
Derivative financial assets:						
Fixed to floating interest rate swaps	**-**	**55.4**	**55.4**	-	45.3	45.3
Combined cross currency interest rate swaps	**-**	**58.5**	**58.5**	-	34.9	34.9
Derivative financial instruments on energy contracts	**-**	**3.9**	**3.9**	-	8.0	8.0
	-	**117.8**	**117.8**	-	88.2	88.2
Financial liabilities:						
Finance lease interest swaps	**-**	**(23.2)**	**(23.2)**	-	(21.3)	(21.3)
Inflation linked swaps	**-**	**(2,067.5)**	**(2,067.5)**	-	(1,754.1)	(1,754.1)
Combined cross currency interest rate swaps	**-**	**(4.0)**	**(4.0)**	-	(4.2)	(4.2)
	-	**(2,094.7)**	**(2,094.7)**	-	(1,779.6)	(1,779.6)
Net debt:						
Cash and short term deposits	**51.5**	**-**	**51.5**	41.2	-	41.2
Borrowings	**(862.1)**	**(4,689.5)**	**(5,551.6)**	(279.9)	(5,055.1)	(5,335.0)
	(810.6)	**(4,689.5)**	**(5,500.1)**	(238.7)	(5,055.1)	(5,293.8)

Cash and short term deposits were invested with a range of counterparties, either AAA rated sterling liquidity funds or banks with a rating of at least long term A, short term A1/P1, in accordance with approved investment guidelines.

The group has recognised a liability for the mark to market loss of £2,067.5m (2018: £1,926.2m) on inflation linked swaps. As at 31 March 2019, the total liability is included within the inflation linked swaps balance above in financial liabilities. As at 2018, £1,754.1m was shown as inflation linked swaps as in the table above; the remaining £172.1m, relating to the RPI accretion was shown within borrowings in note 14.

20. Financial instruments *(continued)*

The following table summarises the fair value movements on the derivative instruments:

	2019 £m	2018 £m
Included in finance income		
Movement in fair value of inflation linked swaps	**-**	39.0
Movement in fair value of cross currency debt	**-**	50.9
Movement in fair value of combined cross currency interest rate swaps	**23.8**	-
Movement in fair value of fixed to floating interest rate swaps	**10.1**	-
Movement in fair value of debt associated with fixed to floating swaps	**7.9**	21.5
Movement in fair value of finance lease interest rate swaps	**-**	4.0
	41.8	115.4
Included in finance costs		
Loss on modification of inflation linked swaps	-	(10.1)
Movement in fair value of inflation linked swaps	**(263.1)**	-
Movement in fair value of finance lease interest rate swaps	**(1.9)**	-
Movement in fair value of combined cross currency interest rate swaps	**-**	(47.7)
Movement in fair value of cross currency debt	**(24.0)**	-
Movement in fair value of fixed to floating interest rate swaps	**-**	(16.2)
Movement in fair value of energy derivative	**(4.1)**	-
	(293.1)	(74.0)
Net fair value movement	**(251.3)**	41.4

In the year ended 31 March 2018, the equivalent movement in fair value of energy derivative of £14.3m income was included within operating costs.

As a result of a change in presentation this year, movement in fair value of inflation linked swaps of £263.1m includes £84.9m in relation to RPI uplift on inflation linked swaps.

20. Financial instruments *(continued)*

Movement in the fair value of cross currency swaps and associated debt

The group holds a number of combined cross currency interest rate swaps which have been designated in fair value hedge relationships and have been valued at the reporting date at fair value. In line with IFRS 9, the financial instruments to which the swaps relate have also been measured at fair value at 31 March 2019. The fair value movement of the combined cross currency interest rate swaps has resulted in £23.8m income (2017/18: £47.7m expense) to the profit and loss account. This is offset by the fair value movement in the associated debt of £24.0m expense (2017/18: £50.9m income). The net impact to the profit and loss account is £0.2m of cost (2017/18: £3.2m income).

Movement in the fair value of fixed to floating interest rate swaps

The group holds a number of fixed to floating interest rate swaps which are designated as fair value hedge relationships and have been valued at the reporting date at fair value. In line with IFRS 9, the financial instruments to which these fixed to floating interest rate swaps relate to have also been measured at fair value at 31 March 2019. The fair value movement of fixed to floating interest rate swaps has resulted in £10.1m income (2017/18: £16.2m expense) to the profit and loss account. The fair value movement of associated debt is £7.9m income (2017/18: £21.5m income). This is a total impact to the profit and loss account of £18.0m of income (2017/18: £5.3m income).

Movement in the fair value of finance lease swaps

The group has two floating to fixed interest rate swaps that have been taken out by the group to hedge against movements in the twelve month London Interbank Offered Rate (LIBOR) interest rates on floating rate finance leases. The finance lease swaps hedge the movement in interest rates by receiving interest based on twelve month LIBOR and accruing interest payable at a fixed rate. The swaps have been valued at the reporting date at fair value, which at 31 March 2019 resulted in a £23.2m liability (2017/18: £21.3m). The increase of the liability in the year ended 31 March 2019 of £1.9m (2017/18: £4.0m income) has been recognised as fair value cost. This has been included in the profit and loss account as the specific circumstances which would allow it to be held in reserves were no longer met.

Movement in the fair value of inflation linked swaps

Inflation linked swaps have been valued at the reporting date at fair value, which at 31 March 2019 resulted in a £2,124.1m liability (2017/18; £1,926.2m liability). £2,124.1m (2017/18: £1,754.1m) is recognised within other financial liabilities (note 20) and £nil (2017/18: £172.1m) is recognised within long-term borrowings (note 14).

This year has seen the liability on the inflation linked swaps increase by £313.4m (2017/18: £306.8m decrease). £172.1m relates to change in presentation of the RPI uplift on inflation linked swaps, disclosed in borrowings in 2018. Of the remaining £141.3m movement, £263.1m fair value cost is disclosed in note 21 (2017/18: £28.9m net income). Of this amount, £293.7m relates to the increase in the fair value amount for the year, offset by £32.6m that relates to an inflation linked swap restructuring transaction that occurred during July 2018 and including £2.0m amortisation of the amounts relating to restructuring transactions..

Fair value movements have no effect on cash, but do have a deferred tax impact.

20. Financial instruments _(continued)_

(a) Interest rate risk profile of financial assets and liabilities

The interest rate risk profile of the group's financial assets and liabilities at 31 March 2019 is below. This includes interest payable or receivable in the year as well as the principal repayments. It is assumed that London inter-banking lending rate (LIBOR) and indexation remain constant at the year end position.

Year ended 31 March 2019

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	**23.1**	**22.6**	**4.9**	**-**	**-**	**-**	**50.6**
Guaranteed bonds	**588.6**	**96.9**	**96.9**	**512.3**	**75.2**	**2,282.4**	**3,652.3**
US Dollar bonds	**10.4**	**10.4**	**153.4**	**4.4**	**116.2**	**-**	**294.8**
Finance lease swaps	**2.0**	**2.0**	**2.0**	**2.0**	**2.0**	**14.1**	**24.1**
	624.1	**131.9**	**257.2**	**518.7**	**193.4**	**2,296.5**	**4,021.8**
Floating rate							
Inflation linked guaranteed bonds	**27.6**	**27.7**	**27.7**	**27.8**	**27.9**	**2,059.8**	**2,198.5**
US Dollar bonds	**2.4**	**2.4**	**2.4**	**2.4**	**2.4**	**150.9**	**162.9**
Guaranteed bonds	**12.3**	**12.4**	**12.4**	**12.4**	**45.0**	**324.4**	**418.9**
Bank loans	**30.6**	**30.5**	**92.9**	**26.6**	**26.1**	**266.2**	**472.9**
Combined cross currency interest rate swaps	**7.8**	**7.8**	**7.8**	**7.8**	**7.0**	**-**	**38.2**
Inflation linked swaps	**50.5**	**97.0**	**53.2**	**148.0**	**112.4**	**1,619.3**	**2,080.4**
Fair value interest rate swaps	**11.2**	**11.2**	**11.2**	**11.2**	**11.2**	**67.8**	**123.8**
Finance leases	**16.5**	**5.4**	**5.5**	**5.6**	**5.7**	**77.9**	**116.6**
	158.9	**194.4**	**213.1**	**241.8**	**237.7**	**4,566.3**	**5,612.2**
Non-interest bearing financial liabilities							
Trade payables	**79.2**	**-**	**-**	**-**	**-**	**-**	**79.2**
Other payables	**200.4**	**1.9**	**-**	**-**	**-**	**-**	**202.3**
	279.6	**1.9**	**-**	**-**	**-**	**-**	**281.5**

20. Financial instruments *(continued)*

(a) Interest rate risk profile of financial assets and liabilities *(continued)*

Year ended 31 March 2018

	Within 1 year £m	1-2 years £m	2-3 years £m	3-4 years £m	4-5 years £m	More than 5 years £m	Total £m
Financial liabilities and borrowings							
Fixed rate							
Bank loans	23.7	23.1	22.6	4.9	-	-	74.3
Guaranteed bonds	120.4	584.0	92.4	92.4	507.8	2,153.4	3,550.4
US Dollar bonds	39.4	10.4	10.4	153.4	4.4	116.2	334.2
Finance lease swaps	2.0	2.0	2.0	2.0	2.0	16.1	26.1
	185.5	619.5	127.4	252.7	514.2	2,285.7	3,985.0
Floating rate							
Inflation linked guaranteed bonds	26.6	26.6	26.6	26.6	26.6	1,811.7	1,944.7
US Dollar bonds	1.3	1.3	1.3	1.3	1.3	81.4	87.9
Guaranteed bonds	9.6	9.6	9.6	9.6	9.6	283.4	331.4
Bank loans	34.5	35.0	35.2	97.6	79.8	245.3	527.4
Combined cross currency interest rate swaps	8.0	8.3	8.3	8.3	12.0	29.4	74.3
Inflation linked swaps	50.6	98.5	56.2	151.0	115.4	1,526.2	1,997.9
Fair value interest rate swaps	10.5	11.6	11.6	11.6	11.6	137.5	194.4
Finance leases	14.9	16.8	5.7	5.6	5.6	81.7	130.3
	156.0	207.7	154.5	311.6	261.9	4,196.6	5,288.3
Non-interest bearing financial liabilities							
Trade payables	65.6	-	-	-	-	-	65.6
Other payables	126.9	1.8	-	-	-	-	128.7
	192.5	1.8	-	-	-	-	194.3

20. Financial instruments *(continued)*

(a) Interest rate risk profile of financial assets and liabilities *(continued)*

The following table provides information about the maturity of the nominal amount and interest rates attached to the swaps held by group as of 31 March 2019 to hedge its interest rate risk:

	Period of maturity			
	First year £m 31 March 2019	Second to fifth year £m 31 March 2019	After five years 31 March 2019	Total £m 31 March 2019
Notional amount (GBP)	-	291.5	430.0	721.5
Average interest rate – fixed to floating interest rate swaps	-	-	3.0%	-
Average interest rate – cross currency interest rate swaps (USD)	-	3.3%	-	-
Average interest rate – cross currency interest rate swaps (AUD)	-	3.1%	-	-

As of the 31 March 2019, the group held the following energy swap to hedge energy prices on its hedged items:

	Period of maturity			
	First year £m 31 March 2019	Second to fifth year £m 31 March 2019	After five years 31 March 2019	Total £m 31 March 2019
Notional amount (GBP)	-	60.1	-	60.1
Average energy price – MWh per day	-	45.65	-	45.65

(b) Financial risks

Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern to provide benefits to stakeholders, returns to shareholders and to maintain an optimal capital structure. In order to do this, the group will consider the amount of debt and assets held and their liquidity.

When monitoring capital risk, the group considers its gearing and the ratio of net debt to regulatory capital value (RCV).

Centrally managed funds are invested entirely with counterparties whose credit rating is 'A-' or better.

Maximum exposure relating to financial assets is represented by carrying value as at the balance sheet date.

20. Financial instruments *(continued)*

(b) Financial risks *(continued)*

Credit risk

The group has some exposure to credit risk through the holding of receivables on the year-end balance sheet. These can be split into main charges receivables and other trade receivables.

For trade receivables, the group measures a provision for expected credit losses at an amount equal to lifetime expected credit losses, estimated by reference to past experience and relevant forward-looking factors. The group considers that credit-impaired receivables includes receivables that are past two years overdue, because historical experience indicates that these receivables are generally not recoverable.

Risks associated with main charges receivables include limits on the group's ability to restrict supply. However, this does not apply to all receivables. The credit risk is mitigated by introducing payment plans, providing advice and support to customers where this is viable and where it is considered necessary, using legal procedures to reclaim outstanding debts.

Risks associated with other trade receivables are mitigated by credit checks performed on customers before they are supplied, the cessation of supply to customers who are a high credit risk and payment in advance where this is deemed necessary.

The directors consider that the carrying amount of trade and other receivables approximates to their fair value. The amounts presented in the balance sheet are net of allowances for doubtful receivables, estimated by the group's management based on prior experience and their assessment of the current economic environment.

The group's objective is to manage risk by minimising the amount of overdue debt at any time. The group manages the risk by timely review of the ageing profile and employing specific staff to monitor and collect these debts. The risk is measured by monitoring of overdue receivables.

In respect of credit risk arising from the other financial assets of the group - which comprise cash, investments in the equity of other companies such as joint ventures and other receivables and financial assets in relation to concession arrangements - the group's exposure to credit risk arising from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

At 31 March, the maximum exposure to credit risk for the group and company is represented by the carrying amount of each financial asset in the statement of financial position:

		Group		**Company**
	2019	2018	**2019**	2018
	£m	£m	**£m**	£m
Cash and short term deposits (Note 14)	**51.5**	41.2	**-**	-
Trade and other receivables (see note 13 and 15)	**250.2**	226.5	**-**	-
Investments	**-**	-	**778.4**	778.4

20. Financial instruments *(continued)*

Liquidity risk

Liquidity risk is the risk that the group will not have the level of liquid funding available to meet its requirements. Maintaining an inadequate amount of liquidity and being unable to access the debt markets when required exposes the group to the risk of being unable to finance its functions, whilst maintaining excess liquidity potentially exposes the group to the risk of inefficient funding costs.

The group looks to manage its liquidity by ensuring debt is held with a range of durations and the maturity profile is actively managed by the group's treasury function. Existing bank covenants require the group to keep a combination of available cash and banking facilities sufficient to cover anticipated capital expenditure, operating costs and interest costs for the succeeding twelve months. This is a rolling requirement. The group extend the requirement to cover all other future outgoings. Further facilities are not expected to be required within the next year to comply with the above policy.

At 31 March 2019 the group had £590.6m of available liquidity (2018: £690.2m) which comprised £51.5m in available cash and short term deposits (2018: £41.2m) and £539.1m of undrawn committed borrowing facilities (2018: £649.0m).

The maturity profile on pages 107-109 represents the forecast future contractual principal and interest cashflows in relation to the group's financial liabilities and derivatives on an undiscounted basis. There is no material risk to the timing or value of payment of the amounts disclosed with the exception of changes to the RPI and LIBOR forecasts.

Market risk

Market risk is the risk that movements in market conditions, including inflation and interest rates will impact materially on the group financial performance. The group's exposure to market risks primarily results from its financial arrangements and the economic return which it is allowed on the Regulatory Capital Value (RCV).

The group uses a variety of financial instruments, including derivatives, in order to manage the exposure to these risks.

The group's fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. The group's floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The group uses interest rate swap contracts to hedge these exposures where appropriate.

The sensitivity of the group's interest and borrowings to the above risks can be summarised as follows:

	2019	2018
	£m	£m
Impact on profit before tax		
1% increase in RPI leading to a decrease in profit	**31.9**	9.7
1% decrease in RPI leading to an increase in profit	**(32.0)**	(9.7)
1% increase in LIBOR leading to an increase in profit	**13.4**	14.5
1% decrease in LIBOR leading to a decrease in profit	**(2.6)**	(7.9)

Hedging of floating rate interest due on borrowings

The group has a number of borrowing facilities with a number of counterparties on which interest is linked to LIBOR. It is therefore exposed to changes in LIBOR which could have a material effect on interest costs from year to year and over time.

In order to manage its exposure to movements in LIBOR, the group has entered into a number of floating rate to inflation linked swaps and also a floating interest rate to fixed interest rate swap.

The nominal value of inflation linked swaps total £1,289.0m and have an average life of 25 years. The nominal value of the floating interest rate to fixed interest rate swaps is £45.0m with a remaining life of 15 years.

The hedging instruments are not a perfect cash flow hedge against changes in LIBOR as the dates and amounts of the swaps vary in some cases to the borrowings which they hedge.

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities

The information set out below provides information about how the group determines fair values of various financial assets and financial liabilities.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities or where the directors consider the carrying amounts of the financial instruments to approximate to their fair value;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

20. Financial instruments _(continued)_

(c) Fair values of financial assets and financial liabilities _(continued)_

Fair value of the group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the group's financial assets and financial liabilities are measured at fair value at the end of each reporting year. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/ financial liabilities	Fair value as at 31 March		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable input(s)	Relationship of unobservable inputs to fair value 31 March
	2019	**2018**				
1. Interest rate swaps, combined cross-currency swaps, inflation linked swaps, fixed rate bonds and inflation linked bonds	Assets: £117.8m Liabilities: £1,532.6m	Assets: £88.2m Liabilities: £1,616.1m	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects own or counter-party credit risk.		
2) Interest rate swaps, inflation linked swaps	Assets: £nil Liabilities: £1,427.6m	Assets:£nil Liabilities: £916.3m	Level 3	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting year) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.	• Counter-party cost of funding assumption. • Assumptions relating to long-term credit beyond observable curves • Recovery rates	Unobservable inputs contribute on average to 24% of the fair value of level 3 instruments, equalling a total of £508.6m of the fair value included in the financial statements. A ten basis point shift in each of these assumptions in either direction gives rise to an aggregate impact on the valuation of £167.1m higher or lower.

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

The following table provides the fair values of the group's financial assets and liabilities at 31 March.

	2019 Level 1 £m	**2019 Level 2 £m**	**2019 Level 3 £m**	2018 Level 1 £m	2018 Level 2 £m	2018 Level 3 £m
Primary financial instruments financing the group's operations						
Financial assets held at amortised cost						
Cash and short term deposits	**51.5**	**-**	**-**	41.2	-	-
Financial assets designated as Fair Value Through Profit and Loss						
Fixed to floating interest rate swap assets	**-**	**55.4**	**-**	-	45.3	-
Cross-currency interest rate swaps	**-**	**58.5**	**-**	-	34.9	-
Energy derivative	**-**	**3.9**	**-**		8.0	
Financial liabilities designated as Fair Value Through Profit and Loss						
Fixed rate interest rate swaps in respect of finance leases	**-**	**(23.2)**	**-**	-	(21.3)	-
Combined cross currency interest rate fair value swaps (US and AU Dollar)	**-**	**(4.0)**	**-**	-	(4.2)	-
Fixed rate US Dollar bonds	**-**	**(313.8)**	**-**	-	(318.2)	-
Fixed rate AU Dollar bonds	**-**	**(30.0)**	**-**	-	(29.6)	-
Fixed rate Sterling bonds	**-**	**(470.4)**	**-**	(273.7)	(204.3)	-
Inflation linked swaps	**-**	**(691.2)**	**(1,427.6)**	-	(1,038.5)	(916.3)
Financial liabilities held at amortised cost						
Fixed rate sterling bonds	**(2,332.1)**	**(416.5)**	**-**	(2,330.0)	(267.2)	-
Inflation linked sterling bonds	**(451.5)**	**(1,468.7)**	**-**	(571.6)	(1,324.3)	-
Floating rate stirling bonds	**-**	**(74.4)**	**-**	-	(74.3)	-
Obligations under finance leases	**(102.0)**	**-**	**-**	(112.8)	-	-
Other bank loans and overdrafts	**(1,068.9)**	**-**	**-**	(564.0)	-	-

20. Financial instruments *(continued)*

(c) Fair values of financial assets and financial liabilities *(continued)*

Reconciliation of Level 3 fair value measurements of financial liabilities:

	RPI swaps £m	Total £m
Balance at 1 April 2018	**916.3**	**916.3**
Total unrealised gains or losses:		
- included within finance costs in the profit or loss	**533.7**	**533.7**
Transfers from Level 3	**(22.4)**	**(22.4)**
Balance at 31 March 2019	**1,427.6**	**1,427.6**

Valuations that are classed as level 3 for the inflation linked swaps are defined by the proportion of the funding and counter-party adjustment being greater than 10% of the total mark to market valuation of the instrument.

The following table shows the sensitivity of fair values to reasonably possible alternative assumptions as at 31 March 2019:

	Reflected in profit or loss	
	Favourable change £m	Unfavourable change £m
Level 3 financial instrument assumptions:		
10 basis point change in counter-party funding assumption	45.70	(45.70)
10 basis point change to credit curve assumption	32.10	(32.10)
10% change in recovery rate assumption	89.30	(89.30)

Inflation linked swaps

The group holds a number of inflation linked swaps, with a notional value of £1,289.0m. There are three cashflows associated with these inflation linked swaps:

- six monthly interest receivable linked to LIBOR;
- six monthly interest payable linked to RPI; and
- an RPI-linked bullet that is payable on maturity of the instruments or at certain predetermined dates over the duration of the swaps.

In addition, a proportion of the inflation linked swaps also receives six monthly interest amounts based on a fixed rate (see note 8 for further details).

Interest payments and receipts are accrued in the profit and loss account. The RPI bullet accumulated at the balance sheet date has been discounted using an appropriate rate applied to the specific life of the future accretion paydowns of the inflation linked swaps. This is accrued in the profit and loss account and recognised within financial liabilities. The RPI bullet accrued to 31 March 2019 was £184.5m (2017/18: £268.2m) which has been reduced by £57.2m (2017/18: £96.1m) when discounted to present value.

With six month LIBOR and applicable discount rates continuing at low levels in the short-term, Yorkshire Water's portfolio of inflation linked swaps gave rise to a fair value liability of £2,067.5m (2017/18: £1,926.2m liability) at the year end date. Included in this amount, £127.3m (2017/18: £172.1m) represents the discounted value of the RPI bullet accrued to 31 March 2019. As a result of a change in presentation this year, £2,067.5m (2017/18: £1,754.1m) has been recognised within other financial liabilities and £nil (2017/18: £172.1m) has been recognised within long-term borrowings.

20. Financial instruments _(continued)_

(c) Fair values of financial assets and financial liabilities _(continued)_

The valuation model used by the group to determine the fair value of the inflation linked swap portfolio as at 31 March 2019 includes a funding valuation adjustment, credit valuation adjustment and debit valuation adjustment to reflect the long-term credit risk of Yorkshire Water's inflation linked swap portfolio, which includes instruments with super-senior status as well as non-senior status derivatives. The funding valuation adjustments, credit valuation adjustments and debit valuation adjustments to the valuation represent unobservable inputs that have the potential to materially affect the resultant fair valuation, and therefore require estimation techniques to be adopted by management. Management uses a third party expert to advise on the appropriateness of these assumptions, and have prepared sensitivity analysis in order to evaluate the impact of a reasonably possible range of assumptions on the resultant valuation. The total adjustment made to the valuation as a result of the assumptions adopted in respect of these key inputs was £543.2m (2017/18: £442.6m).

The fair value of net derivative financial liabilities of £1,976.9m would be £45.7m (2017/18: £29.7m) higher or lower were the counter-party funding assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £32.1m (2017/18: £43.4m) higher or lower were the credit curve assumption to change by ten basis points. The fair value of net derivative financial liabilities of £1,976.9m would be £89.3m (2017/18: £69.7m) higher or lower were the recovery rate assumption to change by ten per cent.

In July 2018, Yorkshire Water completed a transaction to restructure swaps with a notional value of £374.1m. The terms of swaps were amended to extend the mandatory breaks, due in February 2020, by ten and a half years for swaps with a notional value of £117.5m and to increase interest receivable by £10.0m for two years, £5.0m received semi-annually from August 2018, and to reduce net interest by £21.1m for ten years, with £10.6m received on a net basis semi-annually from August 2020.

In March 2019, Yorkshire Water completed an inflation swap transaction with a notional value of £225.5m, which results in a bespoke RPI floor from Yorkshire Water to its bank counter-party for the period from 2021 to 2048. The terms of this swap match those of an existing swap with the same counter-party, thereby allowing both parties to reduce their counter-party exposures.

Interest rate swaps

The group entered into several multi-currency interest rate swap transactions involving fifteen Fixed US Dollar bonds and one AUS Dollar bond, referred to as Cross Currency swaps between 2011 and 2013.

As detailed in this note above, the net impact of the fair value movement on the swaps resulted in a net expense of £0.2m (2017/18: £3.2m income) to the profit and loss account. This impact is split out as follows.

The fair value of combined cross currency interest rate swaps resulted in an income of £23.8m being recognised in the income statement (2018: £47.8m expense). This is offset by the change in fair value of the associated bonds resulting in an expense of £24.0m (2018: £50.9m income). Of the change in fair value of the associated bonds, £23.6m expense (2018: £47.3m income) relates to Fixed US Dollar bonds and £0.4m expense (2018: £3.6m income) relates to the AUS Dollar bonds.

The group holds three fixed to floating interest rate swaps, which mature in 2029 and 2033. The movement in the fair value of the swaps resulted in income of £10.1m recognised in the income statement (2018: £16.2m charge). There is a change in fair value of the associated bonds of £7.9m income (2018: £21.5m income). The income relating to the fair value of the individual associated bonds is as follows.

£11.7m of income (2018: £15.0m of income) of change in fair value of associated bonds relates to the 3.625% 2029 guaranteed bonds with a fair value of £276.8m (2018: £276.3m) at 31 March 2019. £2.0m (2018: £3.1m charge) change in fair value of associated bonds relates to the 4.965% 2033 Class B guaranteed bonds with a fair value of £106.8m (2018: £104.0m) at 31 March 2019. The remaining £1.8m change in fair value of associated bonds relates to the 3.54% 2029 guaranteed bond issued during the year with a fair value of £101.9m (2018: £101.1m) at 31 March 2019.

The group holds two floating to fixed interest rate swaps in relation to floating rate finance leases. These have a total nominal value of £45m. The movements in the fair value of floating to fixed rate swaps in respect of finance leases resulted in an expense of £1.9m recognised in the income statement as an exceptional item (2018: £3.9m charge).

20. Financial instruments _(continued)_

(d) Hedges

The group's policy is to hedge interest rate risk within approved board policies and guidelines.

Interest rate swaps are used to manage interest rate exposure under a hedging strategy that requires that Yorkshire Water Services Limited and its subsidiaries to maintain at all times at least 85% of its total outstanding debt as inflation linked obligations or fixed rate obligations either directly or via hedges. At the financial year end the proportion was 100.5% (2018: 101%). At the Kelda finance group level the proportion was 95.8% (2018: 96%) at the financial year end.

Hedging of interest due under finance leases

The group has a number of finance leases with a number of counterparties lasting from inception to 21 February 2043.

Fair value hedges

Combined cross currency interest rate swap contracts, exchanging fixed rate interest for floating rate interest on the group's US Dollar bonds, are designated and effective as fair value hedges in respect of interest rates and foreign currency risk. The group has recognised an asset of £58.5m (2018: £34.9m) for the mark to market gain in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value gain of £23.5m (2018: £44.9m loss) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The group has a £33.8m combined cross currency interest rate swap contract, exchanging fixed rate interest for floating rate interest on an Australian dollar bond, which was designated as a fair value hedge of fixed rate bonds of the same value. The hedges were at least 95% effective in hedging the fair value exposure to interest rate movements. The group has made a provision of £4.0m (2018: £4.2m) for the mark to market loss in the fair value of the combined cross currency interest rate swap instruments. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate movements and

20. Financial instruments *(continued)*

d) Hedges *(continued)*

foreign currency exposure, the carrying amount of the bonds was adjusted for a fair value gain of £0.3m (2018: £2.8m loss) which was included in the income statement at the same time that the fair value of the combined cross currency interest rate swap was included in the income statement.

The group has a £250m nominal fixed to floating interest rate swap which is designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The group has recognised an asset of £26.7m (2018: £21.0m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value gain of £11.7m (2017: £9.0m loss) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The group has a £90.0m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements. The group has recognised an asset of £16.8m (2018: £14.4m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as an exceptional item as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £2.0m (2018: £3.6m loss) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

The group has a £90.0m nominal fixed to floating interest rate swap which was designated as a fair value hedge of fixed rate bonds of the same value. The hedge was at least 95% effective in hedging the fair value exposure to interest rate movements.

The group has recognised an asset of £11.9m (2018: £9.9m) for the mark to market gain in the fair value of the fixed to floating interest rate swaps. The fair value movement in the year has been recognised in the income statement as finance income as the instrument was nominated as fair value through profit and loss on inception in line with the prescribed treatment for fair value hedges. As, during the year and since inception, the hedge was at least 95% effective in hedging the fair value exposure to interest rate, the carrying amount of the bonds was adjusted for a fair value loss of £1.8m (2018: £3.6m loss) which was included in the income statement at the same time that the fair value of the fixed to floating interest rate swap was included in the income statement.

Cashflow hedges

The fair value of the floating interest rate to fixed interest rate swap instruments was recognised as a liability of £nil (2018: £10.7m liability). The fair value movement of £0.9m in the year has been charged directly to reserves as hedging criteria were met. The company (AES) in which the swap was held has been sold during the year and the hedging reserve relating to it has been recycled to the profit and loss account reserve.

Foreign currency risk management

The group has a number of long term interest bearing liabilities denominated in foreign currencies; consequently exposures to exchange rate fluctuations arise. Exchange rate exposures are managed within approved policy parameters utilising combined cross currency interest rate swaps.

20. Financial instruments *(continued)*

(d) Hedges *(continued)*

Impact of hedging instruments designated in hedging relationships

The impact of hedging instruments designated in hedging relationships as of 31 March 2019 on the group's consolidated balance sheet is as follows:

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Consolidated Balance Sheet where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge effectiveness
		Assets	Liabilities		
	£m	£m	£m		£m
	31 March 2019	31 March 2019	31 March 2019	31 March 2019	31 March 2019
Fair value hedges					
Fixed to floating interest rate swaps	430.0	55.4	-	Derivative financial asset	10.1
Cross currency interest rate swaps (USD)	257.7	58.5	-	Derivative financial asset	23.5
Cross currency interest rate swaps (AUD)	33.8	-	(4.0)	Derivative financial liability	0.3

	Nominal amount of the hedging instrument	Carrying amount of the hedging instrument		Line item in the Consolidated Balance Sheet where the hedging instrument is reported	Fair value changes of the hedging instrument used as a basis to calculate hedge effectiveness
		Assets	Liabilities		
	£m	£m	£m		£m
	31 March 2018	31 March 2018	31 March 2018	31 March 2018	31 March 2018
Fair value hedges					
Fixed to floating interest rate swaps	430.0	45.3		Derivative financial asset	(16.2)
Cross currency interest rate swaps (USD)	285.9	34.9		Derivative financial asset	(44.9)
Cross currency interest rate swaps (AUD)	33.8		(4.2)	Derivative financial liability	(2.8)

20. Financial instruments *(continued)*

d) Hedges (continued)

Impact of hedged items designated in hedging relationships

The impact of hedged items designated in hedging relationships as of 31 March 2019, on the group's consolidated balance sheet is as follows:

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated balance sheet where the hedged item is reported	Fair value changes of the hedged item used as a basis to calculate hedge ineffectiveness	Cash flow hedge reserve
	Assets £m 31 March 2019	Liabilities £m 31 March 2019	Assets £m 31 March 2019	Liabilities £m 31 March 2019	Assets £m 31 March 2019	Liabilities £m 31 March 2019	£m 31 March 2019	£m 31 March 2019	£m 31 March 2019
Fair value hedges									
Interest rate risk on fixed to floating swaps	-	(426.9)	-	(43.5)	-	-	Borrowings	7.9	-
Interest rate risk on cross currency interest rate swaps (USD)	-	(257.1)	-	(56.6)	-	-	Borrowings	(23.6)	-
Interest rate risk on cross currency interest rate swaps (AUD)		(33.8)	-	3.8	-	-	Borrowings	(0.4)	-

20. Financial instruments _(continued)_

d) Hedges (continued)

	Carrying amount of the hedged item		Accumulated amount of fair value hedge adjustments included in the carrying amount of the hedged item		From the accumulated amount of fair value hedge adjustments: part related to hedged items that ceased to be adjusted for hedging gains and losses		Line item in the consolidated balance sheet where the hedged item is reported	Fair value changes of the hedged item used as a basis to calculate hedge ineffectiveness	Cash flow hedge reserve
	Assets £m 31 March 2018	Liabilities £m 31 March 2018	Assets £m 31 March 2018	Liabilities £m 31 March 2018	Assets £m 31 March 2018	Liabilities £m 31 March 2018	£m 31 March 2018	£m 31 March 2018	£m 31 March 2018
Fair value hedges									
Interest rate risk on fixed to floating swaps	**-**	**(426.6)**	**-**	**(51.4)**	**-**	**-**	**Borrowings**	**21.5**	**-**
Interest rate risk on cross currency interest rate swaps (USD)	**-**	**(285.3)**	**-**	**(32.3)**	**-**	**-**	**Borrowings**	**47.3**	**-**
Interest rate risk on cross currency interest rate swaps (AUD)	**-**	**(33.8)**	**-**	**4.2**	**-**	**-**	**Borrowings**	**3.6**	**-**

20. Financial instruments *(continued)*

e) Deferred 'day one' gains (losses)

Several transactions have been completed to restructure the inflation linked swaps. These have resulted in a 'day one' loss/gain adjustments, which are deferred and amortised over the remaining life of the swaps. The following table details the movements and amounts of deferred 'day one' gains (losses) included in the fair value of the swaps held at the balance sheet date:

	2019	2018
	£m	£m
Balance at 1 April	**(28.6)**	(48.1)
Deferred 'day one' gains (losses) on new derivatives	**(29.9)**	18.4
Deferred 'day one' gains (losses) realised during the year	**1.9**	1.1
Balance at 31 March	**(56.6)**	(28.6)

21. Post balance sheet event

In April 2019, Yorkshire Water listed its first sustainability bond on London Stock Exchange's dedicated Green Bond Segment. The £350m, 2.75% issuance has a tenor of 22 years, due to mature in April 2041.

22. Additional cash flow information

Analysis of movement in net debt

	At 31 March 2017	Non cash movements	Cash movements	At 31 March 2018	**Non cash movements**	**Cash movements**	**At 31 March 2019**
	£m	£m	£m	£m	**£m**	**£m**	**£m**
Cash and cash equivalents	232.6	-	(191.4)	41.2	**-**	**10.3**	**51.5**
Debt due within one year	(160.6)	-	(106.7)	(267.3)	**-**	**(580.6)**	**(847.9)**
Finance leases due within one year	(11.0)	-	(1.6)	(12.6)	**-**	**(1.6)**	**(14.2)**
	(171.6)	-	(108.3)	(279.9)	**-**	**(582.2)**	**(862.1)**
Debt due after one year	(4,959.1)	(34.8)	39.0	(4,954.9)	**89.8**	**263.4**	**(4,601.7)**
Finance leases due after one year	(112.8)	-	12.6	(100.2)	**-**	**12.4**	**(87.8)**
	(5,071.9)	(34.8)	51.6	(5,055.1)	**89.8**	**275.8**	**(4,689.5)**
Net debt relating to continuing activities	(5,010.9)	(34.8)	(248.1)	(5,293.8)	**89.8**	**(296.1)**	**(5,500.1)**

Net debt does not include financial liabilities which are not considered to be part of the Group's borrowings.

22. Additional cash flow information *(continued)*

Cash generated from continuing operations as noted in the group cash flow statement can be derived as follows:

	2019	2018
	£m	£m
Total (loss)/profit for the year	**(145.8)**	74.9
Tax (credit)/charge	**(25.9)**	19.8
Finance income	**(123.9)**	(104.4)
Finance costs	**274.9**	339.3
Net fair value movements (non cash) on finance income and costs	**251.3**	(41.4)
Movement in fair value of derivative financial instrument (energy contracts)	**-**	(14.4)
Depreciation	**294.4**	285.1
Amortisation of intangibles	**11.1**	8.9
Profit on disposal of fixed assets	**(2.9)**	(1.9)
Impairment of property, plant and equipment	**0.3**	1.0
Increase in inventories	**(0.1)**	(0.5)
Increase in trade and other receivables	**(9.4)**	(25.7)
(Increase)/decrease in trade and other payables	**(3.0)**	27.0
Movement in provisions	**-**	(0.6)
Amortisation of capital grants	**(10.3)**	(10.0)
Other movements	**-**	0.6
Cash generated from continuing operations	**510.7**	557.7

23. Commitments

	2019 £m	2018 £m
Capital and infrastructure renewals expenditure commitments for contracts placed at 31 March were:	**364.3**	393.2

The long-term investment programme for the group, which identified substantial future capital expenditure commitments in the period from 2015 to 2020, was agreed as part of the price review process which was finalised in December 2014. £14.7m in 2019 (2017/18: £17.2m) of the above capital commitments relate to intangibles (software).

At 31 March, the group was committed to making the following payments under non-cancellable operating leases as set out below.

The group has entered into commercial leases on certain property, motor vehicles and items of machinery. These leases have an average duration of between 3 and 10 years. There are no restrictions placed on the group by entering into the leases.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2019 Land and buildings £m	**2019 Other £m**	2018 Land and buildings £m	2018 Other £m
No later than 1 year	**1.3**	**1.3**	1.3	1.3
Later than 1 year and no later than 5 years	**4.9**	**0.9**	5.0	1.5
Later than 5 years	**2.2**	**-**	3.4	-
	8.4	**2.2**	9.7	2.8

24. Related parties

Compensation of key management personnel (including directors).

	2019 £m	2018 £m
Short-term benefits	**3.6**	2.8

25. Subsidiary companies

The company, as an individual entity, has the following investments in subsidiaries, associated and jointly controlled entities whose registered office, unless otherwise stated, is Western House, Halifax Road, Bradford, West Yorkshire BD6 2SZ:

Water services	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Yorkshire Water Services Limited	England & Wales	UK	Ordinary	100%

Holding and finance companies	Country of incorporation	Country of tax residence	Class of shares in issue	Proportion of class of share held
Yorkshire Water Services Holdings Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Holdings Limited[1]	Cayman Islands	UK	Ordinary	-
Yorkshire Water Services Finance Limited	England & Wales	UK	Ordinary	100%
Yorkshire Water Services Odsal Finance Limited[1]	Cayman Islands	UK	Ordinary	-
Yorkshire Water Services Bradford Finance Limited[1]	Cayman Islands	UK	Ordinary	-
Kelda Finance (No.2) Limited	England & Wales	UK	Ordinary	100%
Kelda Finance (No.3) PLC	England & Wales	UK	Ordinary	100%
Yorkshire Water Finance PLC	England & Wales	UK	Ordinary	100%
Southern Pennines Rural Regeneration Company	England & Wales	UK	Limited by guarantee	100%

[1]Registered office address: Maples & Calder Corporate Services Limited, PO Box 309, Ugland House, Grand Cayman, Cayman Islands, KY1-1104

Yorkshire Water Finance Plc was incorporated on 2 July 2018. The company's investment in Yorkshire Water Finance Plc was £2.1m. The dissolution of the Cayman Islands registered companies has been discussed in the Strategic Report on page 34.

26. Ultimate controlling party

The company's immediate parent company is Kelda Group Limited. The company's ultimate parent company and controlling party is Kelda Holdings Limited, a company registered in Jersey and resident for tax in the UK.

The largest group in which the results of the company are consolidated is that headed by Kelda Holdings Limited, the registered office of which is 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales, the registered office of which is the same as that of the company. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.

27. Contingent liabilities

In September 2016 Yorkshire Water received a claim on behalf of personal search companies (PSC) relating to a claim for historical fees that they have paid to Yorkshire Water for water and drainage reports obtained when buying a house. The PSCs state that the historical fees should not have been paid to Yorkshire Water as the information should have been provided for no fee.

At this stage it is not known if Yorkshire Water would be liable for these claims, the total value to which they could amount, or the timing of any cash outflow.

28. Adoption of new accounting standards

In the year ended 31 March 2019, the Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments.

The changes in accounting policies as a result are detailed out in note 2.

The transition to the new standards is complete; however, the group will monitor emerging developments and interpretations of the new standard. The cumulative effect method of transition has been adopted, with the effect of initially applying the standard recognised at the date of initial application (1 April 2018). Accordingly, the comparative information presented has not been restated.

(a) Diversions income was previously accounted for in fixed assets, under IFRIC 18. Revenue from diversions is now recognised in revenue under IFRS 15, over the time it takes to complete the diversion. The adjustment reflects the diversions income in the year. The practical expedient has been applied with regard to accounting for completed contracts, whereby they will not be restated under IFRS 15, and therefore no cumulative catch up adjustment has been made.

(b) On transition to IFRS 9, the group has recognised the loss on a non-substantial modification of debt through the profit and loss account, amortised over the life of the financial liability through the effective interest rate. The exchange accounting took place in 2009. The adjustment to retained earnings reflects the cumulative effect from modification to transition.

The cash flows of the group are not impacted by any of the adjustments above.

28. Adoption of new accounting standards *(continued)*

Profit and loss account

	Notes	As reported	Adjustments	Year to 31 March 2019 Amounts without adoption of IFRS 15 & IFRS 9	Year to March 2018 Amounts without adoption of IFRS 15 & IFRS 9
		£m	£m	£m	£m
Revenue	(a)	**1,062.6**	(3.4)	1,059.2	1,010.2
Operating costs before exceptional items		**(797.6)**	-	(797.6)	(716.0)
Exceptional items		**(34.4)**	-	(34.4)	(8.1)
Group operating profit from continuing operations		**230.6**	(3.4)	227.2	286.1
Finance income before fair value income		**123.9**	-	123.9	104.4
Fair value income		**41.8**	-	41.8	115.4
Finance income		**165.7**	-	165.7	219.8
Finance costs before fair value cost		**(274.9)**	1.2	(273.7)	(339.3)
Fair value cost		**(293.1)**	-	(293.1)	(74.0)
Finance costs	(b)	**(568.0)**	1.2	(566.8)	(413.3)
Loss from continuing operations before taxation		**(171.7)**	(2.2)	(173.9)	92.6
Tax (charge)/credit on continuing operations	(a),(b)	**25.9**	0.4	26.3	(19.8)
Loss for the year from continuing operations		**(145.8)**	(1.8)	(147.6)	72.8
Profit from discontinued operations net of tax		**-**	-	-	2.1
Loss for the year		**(145.8)**	(1.8)	(147.6)	74.9

28. Adoption of new accounting standards *(continued)*

Balance sheet

	Notes	As reported £m	Adjustments	As at 31 March 2019 Amounts without adoption of IFRS 15 & IFRS 9 £m	As at 31 March 2018 Amounts without adoption of IFRS 15 & IFRS 9 £m
Non-current assets					
Intangible assets		**124.2**	-	**124.2**	68.5
Property, plant and equipment		**7,850.0**	-	**7,850.0**	7,603.9
Derivative financial assets		**117.8**	-	**117.8**	88.2
Trade and other receivables		**1,150.3**	-	**1,150.3**	1,191.6
		9,242.3	-	**9,242.3**	8,952.2
Current assets					
Inventories		**3.1**	-	**3.1**	3.0
Trade and other receivables		**250.2**	-	**250.2**	168.0
Tax assets		**2.4**	-	**2.4**	-
Cash and cash equivalents		**51.5**	-	**51.5**	41.2
Assets held for sale		**-**	-	**-**	58.5
		307.2	-	**307.2**	270.7
Total assets		**9,549.5**	-	**9,549.5**	9,222.9
Current liabilities					
Trade and other payables		**(353.1)**	-	**(353.1)**	(336.9)
Deferred grants and contributions on depreciated assets		**(11.0)**	-	**(11.0)**	(10.0)
Borrowings		**(862.1)**	-	**(862.1)**	(279.9)
Liabilities directly associated with assets held for sale		**-**	-	**-**	(6.4)
		(1,226.2)	-	**(1,226.2)**	(633.2)
Non-current liabilities					
Borrowings	*(b)*	**(4,689.5)**	25.9	(4,663.6)	(5,055.1)
Trade and other payables		**(5.0)**	-	(5.0)	(5.6)
Financial liabilities		**(2,094.7)**	-	(2,094.7)	(1,779.6)
Deferred contributions on depreciated assets	*(a)*	**(455.6)**	(3.4)	(459.0)	(433.5)
Provisions for other liabilities and charges		**(0.4)**	-	(0.4)	(0.4)
Deferred income tax liabilities	*(a),(b)*	**(387.0)**	(3.8)	(390.8)	(424.2)
		(7,632.2)	18.7	(7,613.5)	(7,698.4)
Total liabilities		**(8,858.4)**	18.7	(8,839.7)	(8,331.6)
Net (liabilities)/assets		**691.1**	18.7	709.8	891.3
Equity attributable to owners of the parent					
Equity shares		**-**	-	-	-
Revaluation reserve		**639.8**	-	639.8	605.8
Accumulated profits		**51.3**	18.7	70.0	285.5
Total equity	(a), (b)	**691.1**	18.7	709.8	891.3

Company Balance Sheet
as at 31 March 2019

	Notes	**2019 £m**	2018 £m
Fixed assets			
Investments	*3*	**778.4**	778.4
Total assets less current liabilities		**778.4**	778.4
Net assets		**778.4**	778.4
Capital and reserves			
Called up share capital	*4*	**-**	-
Profit and loss account		**778.4**	778.4
Total shareholders' funds		**778.4**	778.4

The profit attributable to the parent company was £67.5m (2017: £74.4m). Advantage has been taken of the exemption available under section 408 of the Companies Act 2006 not to present a profit and loss account for the company alone.

The financial statements on pages 129 to 132 were approved by the board of directors on 26 July 2019 and signed on its behalf by:

E M Barber
Director

26 July 2019
Kelda Finance (No.1) Limited
Registered number: 08066326

Registered Address:

Western House
Halifax Road
Bradford
West Yorkshire
BD6 2SZ

Company Statement of Changes in Equity
for the year ended 31 March 2019

	Notes	Profit and loss account £m	Total shareholders' funds £m
At 1 April 2017		778.4	778.4
Profit for the year		74.4	74.4
Dividends paid	2	(74.4)	(74.4)
At 31 March 2018		778.4	778.4
Profit for the year		67.5	67.5
Dividends paid	2	(67.5)	(67.5)
At 31 March 2019		**778.4**	**778.4**

During the year, dividends of £67.5m, £0.68m per share (2018: £74.4m, £0.74m) were declared and cash settled with the immediate parent company.

Notes to the Company financial statements
for the year ended 31 March 2019

1. Company accounting policies

Basis of accounting

The company's financial statements are prepared on a going concern basis, under the historical cost convention in compliance with Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and, except where otherwise stated in the notes to the financial statements, with the Companies Act 2006. The amendments to FRS 101 (2013/14 Cycle) issued in July 2014 and effective immediately have been applied.

In preparing these financial statements, the company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from its registered office address: Western House, Halifax Road, Bradford, BD6 2SZ.

In these financial statements, the company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- a Cash Flow Statement and related notes;
- Comparative period reconciliation for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The going concern basis has been applied in these financial statements. The accounting policies shown below have been applied consistently throughout the current and prior year.

Measurement convention

The company's financial statements are prepared on a going concern basis, under the historical cost convention.

Investments in subsidiaries

Investments in subsidiaries are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

Dividends receivable

Dividends receivable are recognised when the shareholders' right to receive the revenue is established

Dividends payable

Interim dividends payable are recognised on payment of the dividend. Final dividends payable are recognised on approval by shareholders in the annual general meeting.

Share capital

Ordinary shares are classified as equity.

Notes to the Company financial statements _(continued)_
for the year ended 31 March 2019

2. Dividends

	2019	2018
	£m	£m
Dividends of £0.74m per share paid in the year (2017/18: £0.68m)	**74.4**	67.5

3. Investments

	Shares in Group undertakings £m
Cost at 31 March 2018 and 31 March 2019	**778.4**

4. Called up share capital

	2019	2018
	£	£
Issued and fully paid: 100 Ordinary shares of £1.00 each	**100**	100

5. Other information

The company had no employees at 31 March 2019 (2018: none).

Details of directors' emoluments are set out in the directors' remuneration report of the group. No elements related specifically to their work in the company.

Disclosure notes relating to share capital and auditors' remuneration are included within the financial statements of the group.

Auditors' remuneration has been borne by Kelda Group Limited.

6. Ultimate controlling party

The company's immediate parent company is Kelda Group Limited. The company's ultimate parent company is Kelda Holdings Limited, a company incorporated in Jersey and resident for tax in the UK. The directors consider that there is no ultimate controlling party.

The largest group in which the results of the company are consolidated is that headed by Kelda Holdings Limited, the registered office of which is 47 Esplanade, St Helier, Jersey, JE1 0BD, Channel Islands. The smallest group in which they are consolidated is that headed by Kelda Finance (No.1) Limited, incorporated in England and Wales, the registered office of which is the same as that of the company. The consolidated financial statements of these groups are available to the public and may be obtained from the Company Secretary, Western House, Halifax Road, Bradford, West Yorkshire, BD6 2SZ.